

White Paper on International Economy and Trade 2025

June 2025
Trade Policy Bureau
Ministry of Economy, Trade and Industry (METI)

White Paper on International Economy and Trade 2025

1. Status

- **A non-statutory white paper** (METI's four other white papers [White Paper on Small and Medium Enterprises in Japan, White Paper on Small Enterprises in Japan, White Paper on Manufacturing Industries (Monodzukuri), Annual Report on Energy] are those stipulated by law. Other non-statutory white papers include the Annual Report on the Japanese Economy and Public Finance [Economic and Fiscal White Paper]).
- Distributed at the Cabinet meeting every year (**77th publication** this year).

2. Purpose

- To contribute to forming trade strategies through analyzing international economic trends and foreign policies that affect trade, and to inform the public of the ideas that form the basis for trade policy and its directions.

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1 . The U.S. Tariff Shock and Structural Issues

- **The U.S. tariff shock** in April 2025, against the backdrop of the increase of the U.S. twin deficits and the resulting **increase in uncertainty, have dampened the global economic outlook.**
- The underlying **structural issues** are as follows:
 - ① Over the past 30 years, **income inequality has widened within countries,** particularly **China and the U.S.**
 - ② **Dissatisfaction against the China Shock,** the surge in imports from China that has adversely affected certain regions and workers in the U.S., **led to increased support for protectionist trade policies.**
 - ③ China's current economic slowdown has exposed its **underconsumption structure,** which has been exacerbated by widening **domestic inequality,** partly stemming from export-led growth.
- Currently, **net exports are contributing more to China's growth rate.** While China's imports are stagnating, **deflationary exports** driven by underconsumption are on the rise.

Escalating Uncertainty due to the Tariff Shock

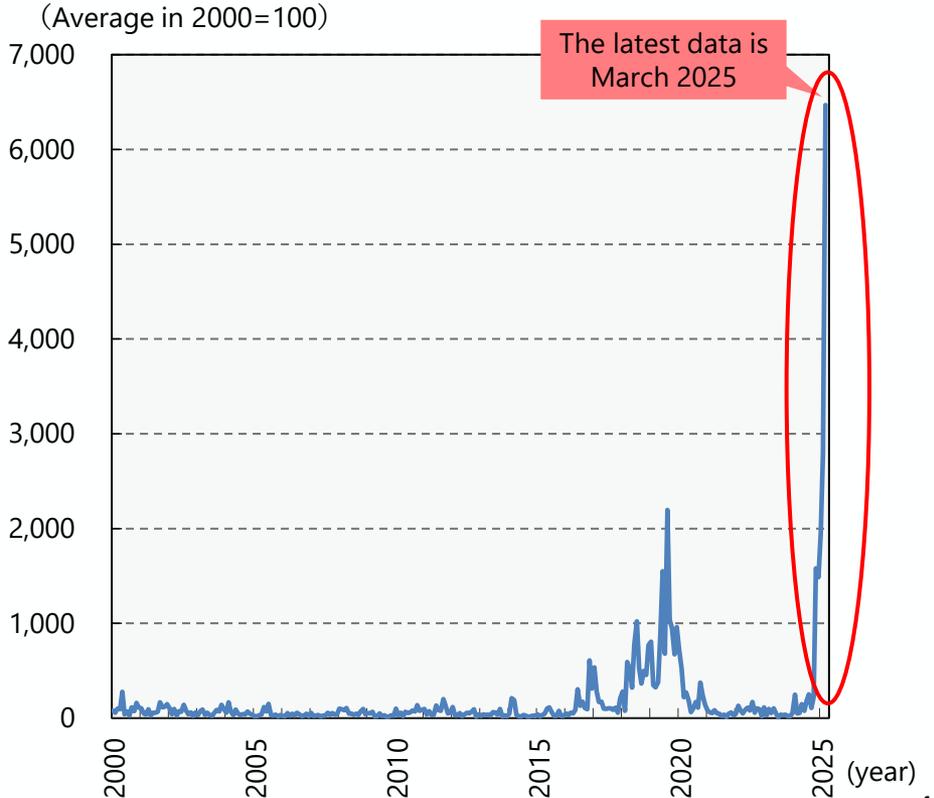
- In 2024, the global economy showed a solid growth rate of 3.3%, but it was heavily reliant on U.S. growth amid China's economic slowdown, etc.
- In response to the tariff hike in April 2025, the IMF revised its outlook for global economic growth in 2025 down to 2.8% (as of April 4). Not only the tariffs themselves but also mounting policy uncertainty are significantly dampening this outlook.

IMF Global Economic Growth Rate Outlook (as of April 4)

	2024	Projections in 2025	Revision from the January projections	Projections in 2026	Revision from the January projections
World	3.3%	2.8%	-0.5%	3.0%	-0.3%
U.S.	2.8%	1.8%	-0.9%	1.7%	-0.4%
China	5.0%	4.0%	-0.6%	4.0%	-0.5%
Japan	0.1%	0.6%	-0.5%	0.6%	-0.2%
Euro Area	0.9%	0.8%	-0.2%	1.2%	-0.2%

[Left figure] Source: IMF WEO (April 2025).

U.S. Trade Policy Uncertainty Index

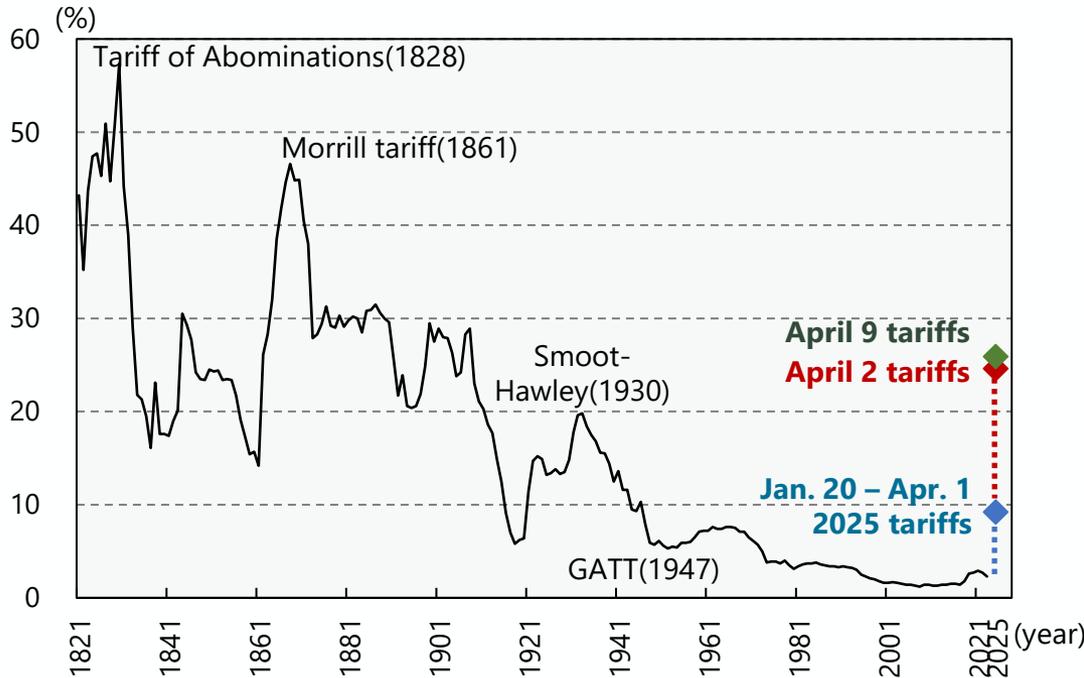


[Right figure] Source: Economic Policy Uncertainty. Data are up to March 2025.

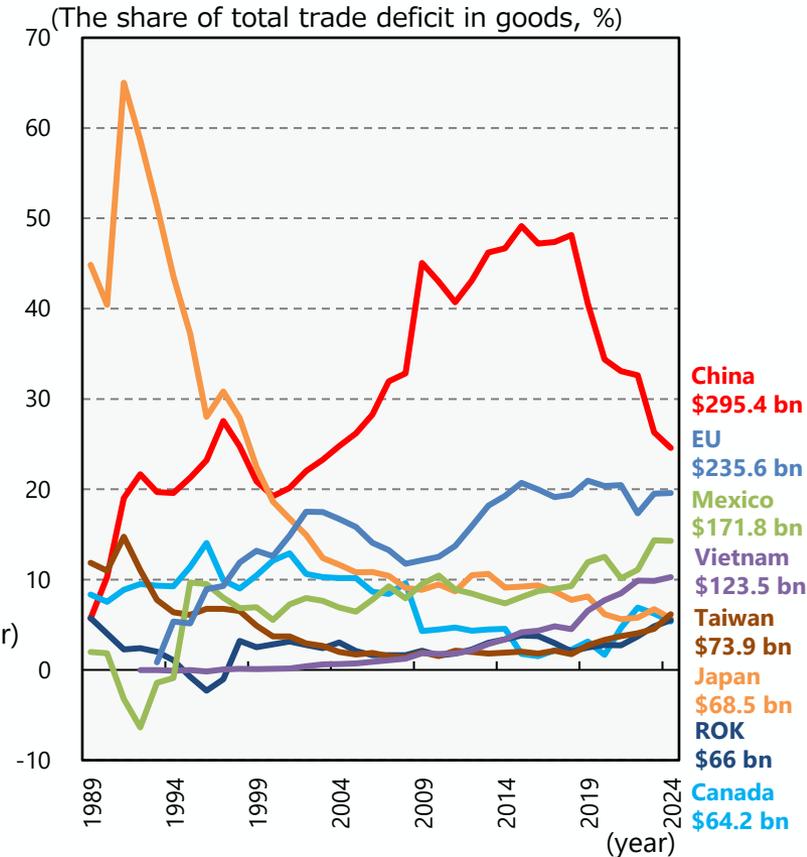
The April U.S. Tariff Hike Was Historic in Scale

- **The April 2025 U.S. tariffs** raised the effective rate to levels **higher than those in 1930**.
- The U.S. Trump administration is concerned about **the bilateral trade deficit**. However, **the priorities and connections among various policy objectives**—such as reducing the trade deficit, reshoring manufacturing, creating jobs, ensuring economic security, increasing tax revenues, and adjusting a strong dollar—**remain unclear**.

The U.S. Effective Tariff Rate



U.S. Trade Deficits by Country



[Left figure] Note: The Jan. 20–Apr. 1 tariffs in 2025 include 20% tariffs on China; 25% tariffs on steel and aluminum; 25% tariffs on Mexico and Canada; and a 10% tariff on Canadian energy imports. A U.S.–Mexico–Canada Agreement (USMCA) carve-out is assumed to halve the effective tariff increase for Canada and Mexico. The April 2 tariffs include auto sector tariffs and country-specific tariffs, applying exemptions provided in Annex II of the Executive Order per IMF staff judgment. The April 9 tariffs include an increase in the tariffs on China to 145% and a reduction in other country-specific tariffs to 10%. It also includes exemptions on some electronic products announced on April 11.

Source: IMF WEO published in April 2025 (US Bureau of the Census, Historical Statistics of the United States, 1789–1945; US International Trade Commission; and IMF staff calculations).

[Right figure] Note: Data is nominal and census basis. EU data is from 1993, and Vietnam data is from 1992.

Source: US Bureau of the Census and CEIC database.

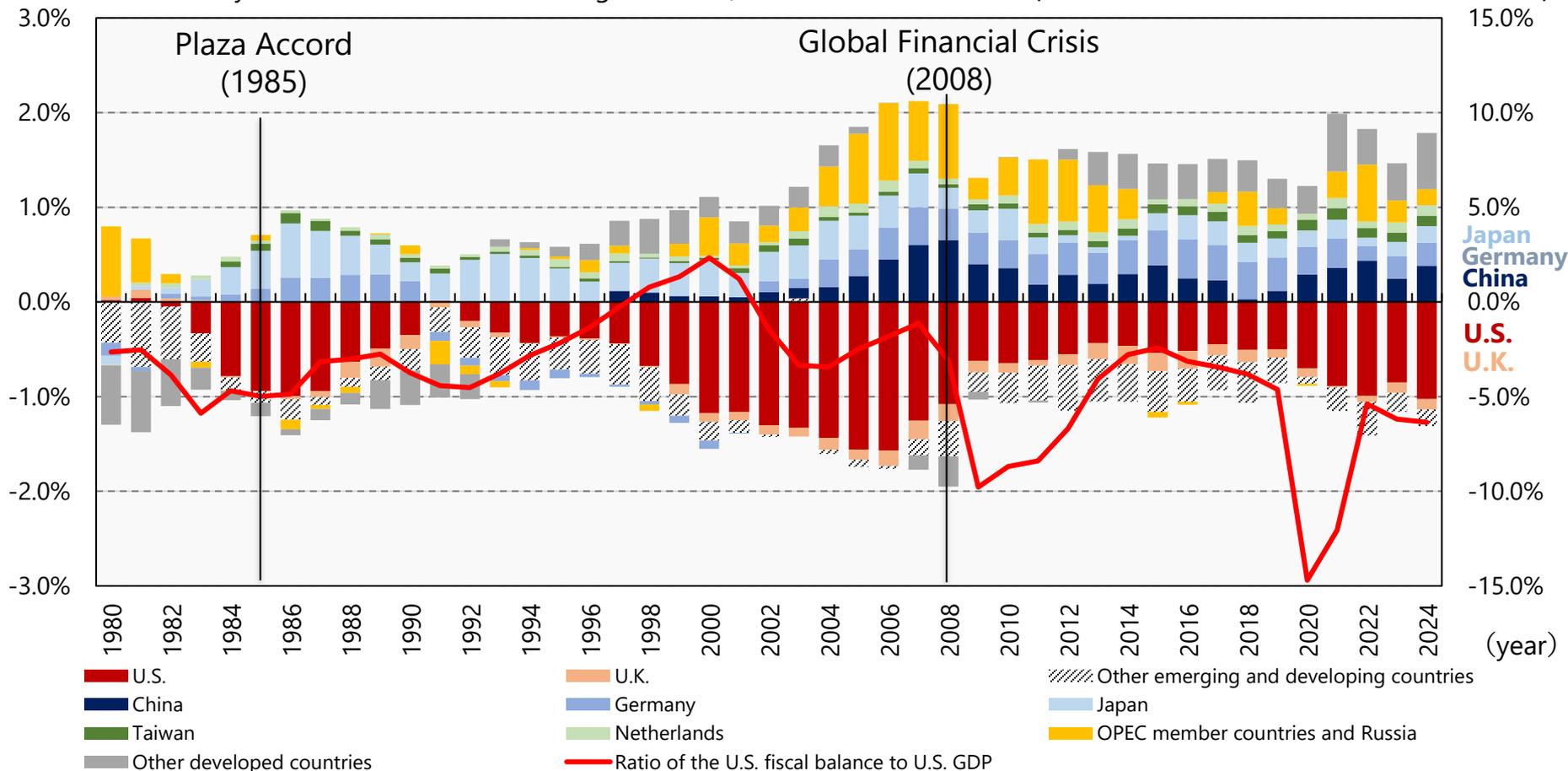
The U.S. Twin Deficits

- **The U.S.** accounts for **the vast majority of the world's current account deficit** relative to global GDP. The U.S. has **twin deficits** with both the current account deficit and the fiscal deficit on the rise.

World's Current Account Balances (Ratio to Global GDP) and U.S. Fiscal Balance (Ratio to U.S. GDP)

(Ratio of each country's current account balance to global GDP)

(Ratio of the U.S. fiscal balance to U.S. GDP)



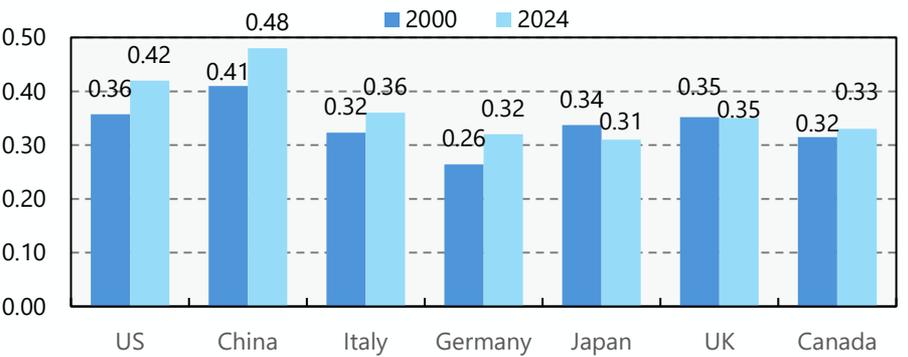
Note: The current account balance reflects the ratio of each country's current account balance to global GDP, with negative figures indicating a current account deficit. This includes countries with a current account balance ratio greater than 0.1% or less than -0.1% in 2024.

Source: IMF WEO published in April 2025, U.S. Department of Commerce, CEIC database.

Dissatisfaction with Inequality and the 'China Shock'

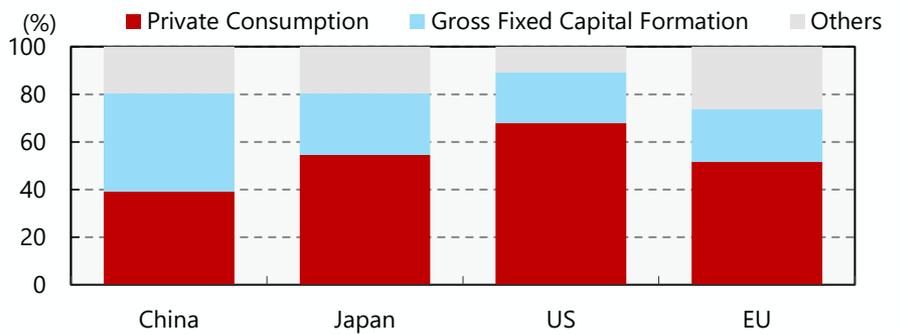
- Over the past 30 years, while global income levels have generally improved and absolute poverty has decreased, **domestic economic disparities** in many countries, particularly **in China and the U.S., have widened.**
- In the U.S., **dissatisfaction** with the adverse effect of **the surge in imports from China** on certain regions and workers has led to **increased support for protectionism.** On the other hand, **China's** export-led growth contributed to **domestic inequality**, which has become a foundation of the current **underconsumption structure.**

Gini Coefficients of Major Countries



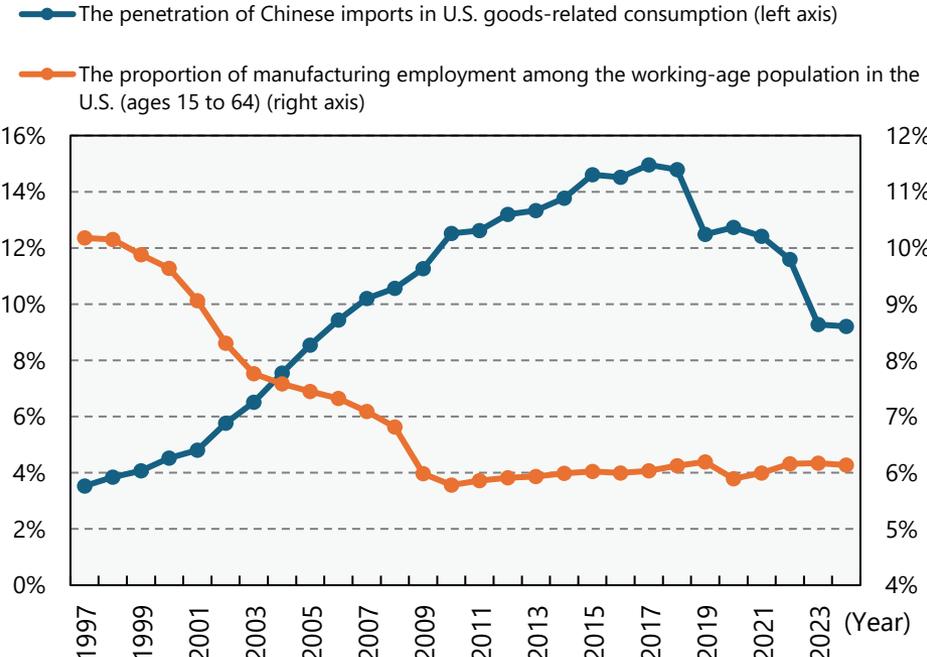
Note: China's right bar is the 2022 data as the 2024 data is unavailable. Source: Materials distributed at the 12th meeting of the Trade Committee of the Industrial Structure Council (April 17, 2025)

Breakdown of GDP Demand Components



Source: World Development Indicators (World Bank), National Accounts (Cabinet Office)

China's Import Penetration and Manufacturing Employment in the U.S.



Note: The import penetration rate is calculated as follows.

$$\text{U.S. goods imports from China} / \text{U.S. goods consumption}$$

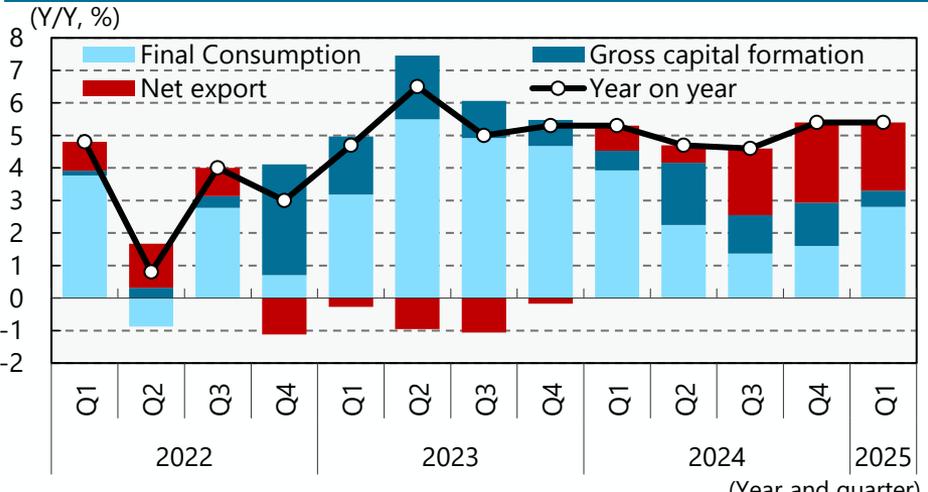
$$= \text{U.S. goods imports from China} / (\text{U.S. goods production} + \text{U.S. Goods imports} - \text{U.S. goods exports})$$

$$= \text{U.S. goods imports from China} / (\text{U.S. production in manufacturing, mining, agricultural, forestry, and fishery sectors}) + \text{U.S. goods imports} - \text{U.S. goods exports}$$
 Source: U.S. Department of Commerce, U.S. Census Bureau, U.S. Department of Labor, OECD, CEIC database.

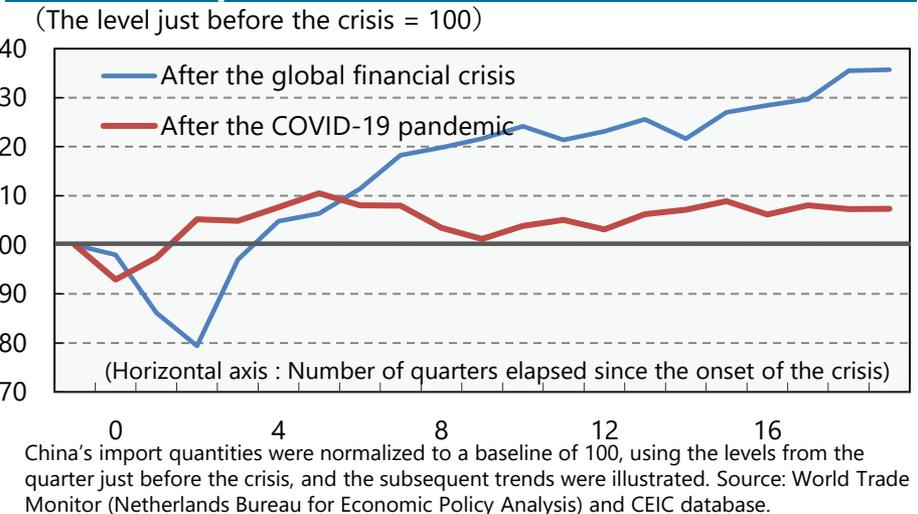
China's Surging Deflationary Exports

- China's **net exports** account for **nearly half** of the contribution to recent **GDP growth**.
- **China's underconsumption** is accelerating **deflationary exports**. U.S.-China trade friction has begun to divert China's export to ASEAN, India, and elsewhere.

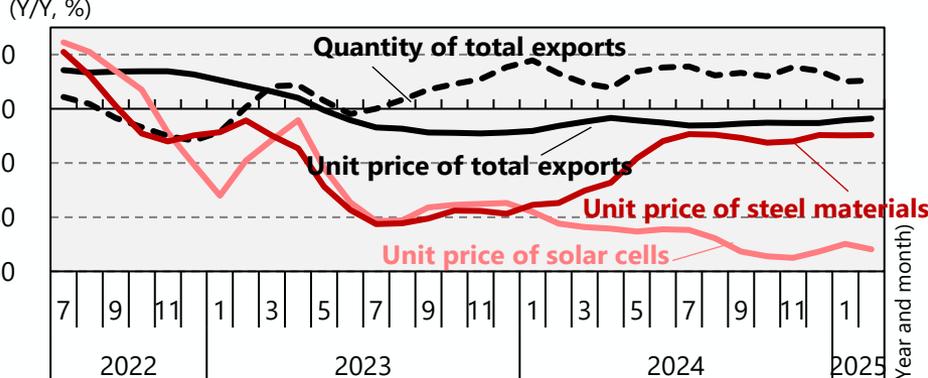
Breakdown of China's Real GDP Growth



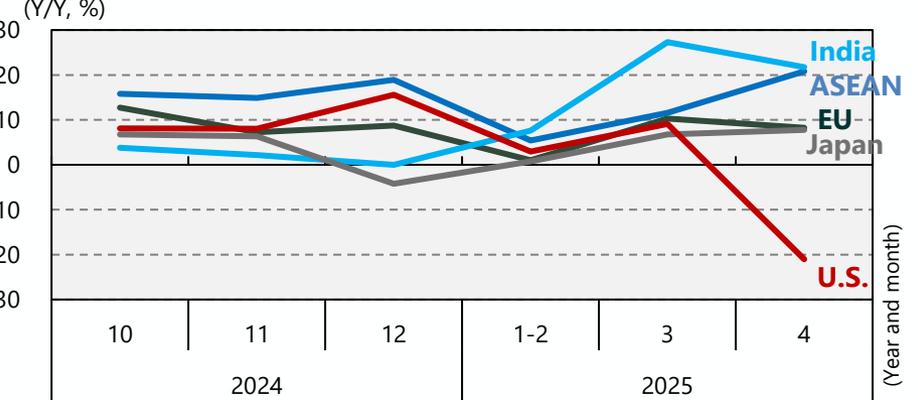
China's Import Quantities after the Global Crises



China's Export Prices and Quantities



Growth of China's Export by Country/Region



Source: General Administration of Customs of China and CEIC database.

Source: General Administration of Customs of China and CEIC database.

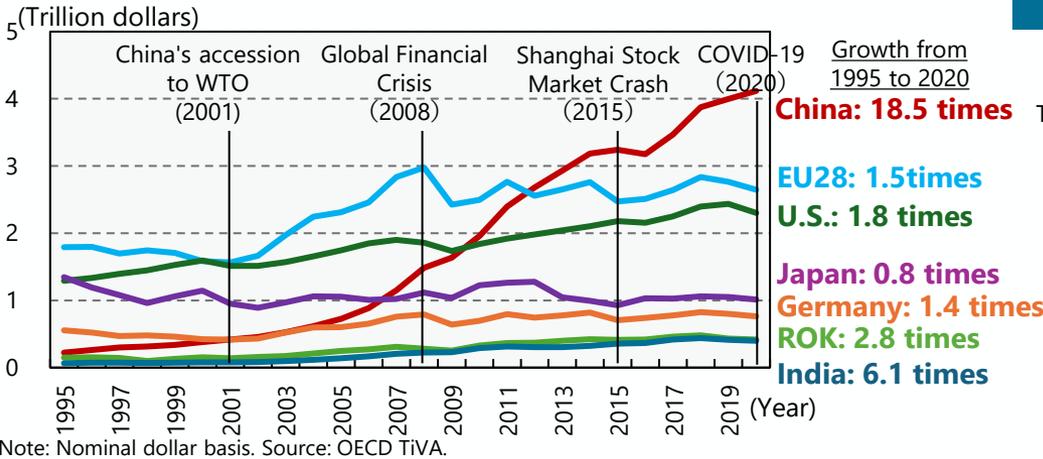
2. The Impact of China's Industrial Development on Trade & Investment

- Over the past 30 years, **China's manufacturing industry has expanded its production capacity** across a wide range of sectors at an unprecedented speed and scale.
- China's industrial development mechanisms—namely, the **central government's industrial policies**, **competition among local governments**, and **economies of scale**—have played different roles depending on the specific industry.
- China has consecutively created **new export items** across various industries. **Negative externalities of economies of scale** and a **deteriorating business environment** have emerged. In recent years, China has expanded **FDI in ASEAN countries and countries along the Belt and Road Initiative**.
- **Asian neighboring countries** (ASEAN, the ROK and India) have shown **different responses** to environmental changes such as U.S.-China trade friction and the expansion of China's exports & investments. Overall, **their dependence on China has been deepening**.

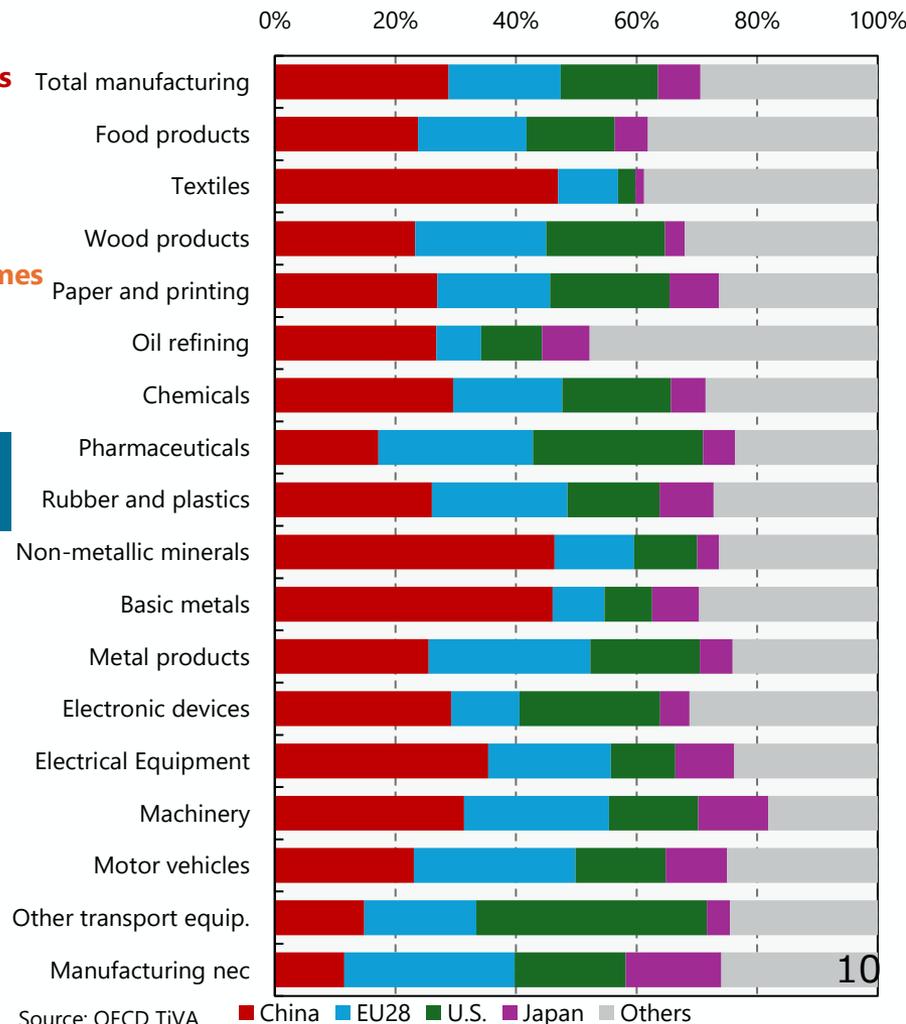
Expansion of China's Manufacturing Industry

- China has expanded its **diverse manufacturing capacity** at an **unprecedented speed and scale**. **Guangdong and Jiangsu provinces** alone generate industrial value added **comparable to that of Japan**.

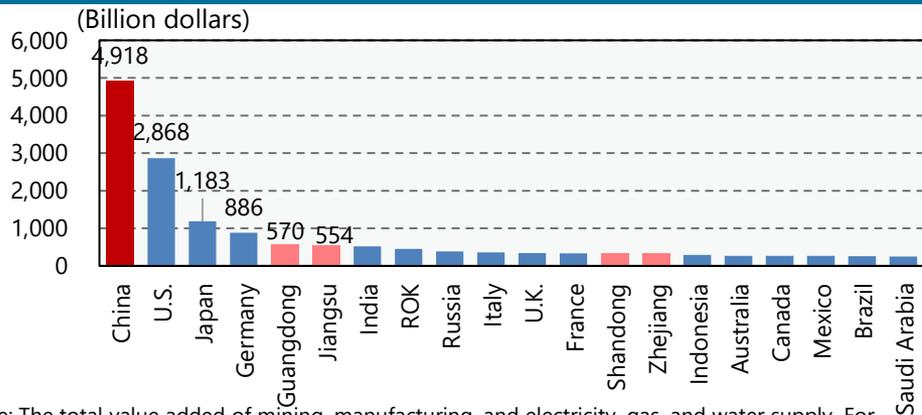
Manufacturing Value Added of Major Countries/Region



Share of Manufacturing Value Added by Industry and Country/Region (2020)



Share of Manufacturing & Mining Value Added by Country/Region (2020)

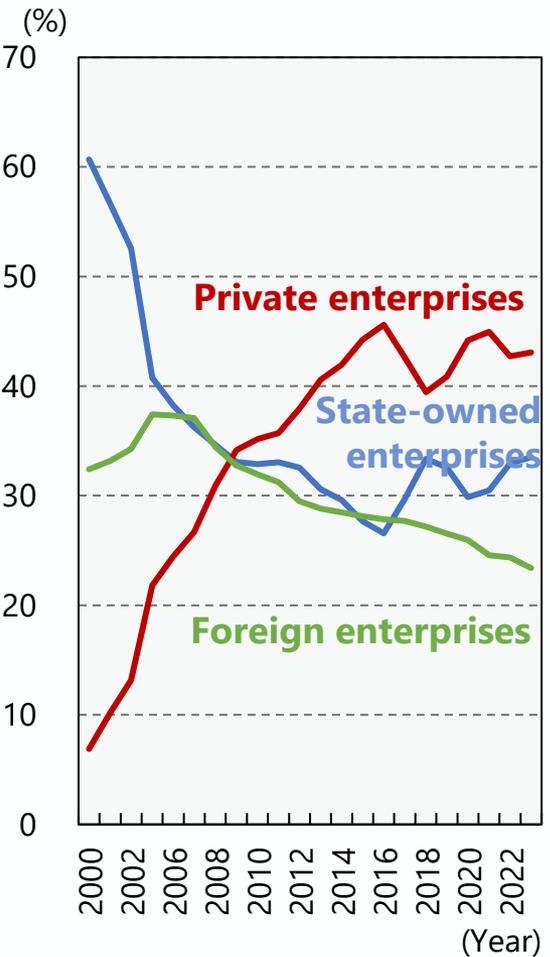


Note: The total value added of mining, manufacturing, and electricity, gas, and water supply. For provincial data in China, the original data from the National Bureau of Statistics of China are converted using the IMF's average exchange rate for 2020 (1 USD ≈ 6.9 CNY).
Source: OECD TiVA, IMF IFS, and the National Bureau of Statistics of China.

Private Companies Led Growth with Massive Industrial Support

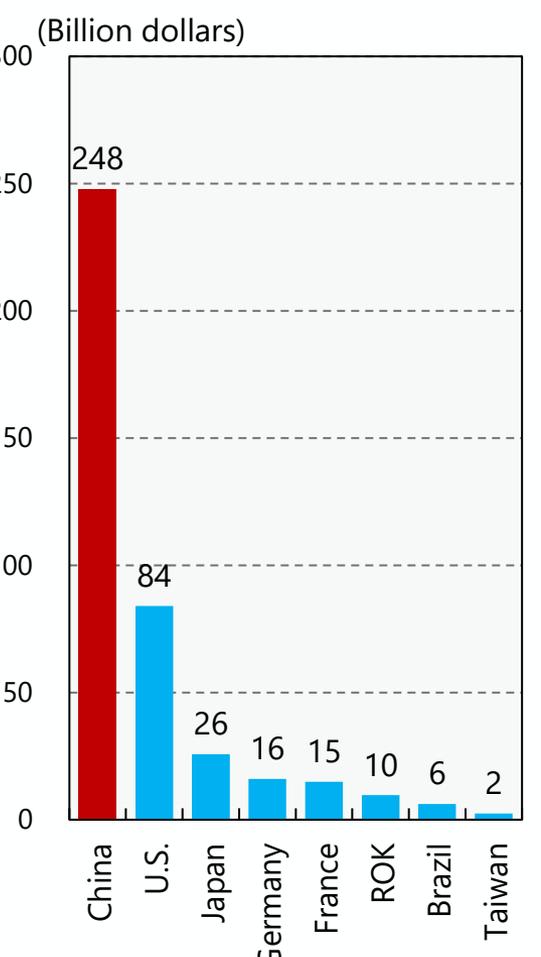
- **China's manufacturing growth** has been driven by **private enterprises**, but **“state advancement and private retreat”** became apparent in the last decade.
- **China's industrial policy expenditure** is estimated to be **enormous**.

Sales Share by Type of Enterprise in China's Industrial Sector



Source: National Bureau of Statistics of China.

Expenditures by Industrial Policies of Major Countries



Note: Estimates for the year 2019.

Source: Dipippo et al. (2022).

China's Major Industrial Policies

Year	Policy documents, etc.	Notes
1989	Decision on Current Industrial Policy by the State Council	Presenting a prototype of industrial policy
1994	National Industrial Policy Outline for the 1990s	Fostering pillar industries
1996	The 9th Five-Year Plan	Improving the efficiency of state-owned enterprises
2001	WTO accession	
2001	The 10th Five-Year Plan	Great Western Development
2004	Automobile Industry Dev. Policy	Formulation of industrial policies for various industries
2006	The 11th Five-Year Plan	Positioned as the government's vision (from '计划' to '规划').
2006	Medium- to Long-Term Plan for the Dev. of Science and Technology	Promotion of science and technology, and enhancement of innovation capabilities
2011	The 12th Five-Year Plan	Promotion of Strategic Emerging Industries
2015	Made in China 2025	Three stages to be a global manufacturing powerhouse
2015	Internet Plus	Application of ICT in industries
2015	Mass Entrepreneurship and Innovation	Promotion of innovation and entrepreneurship
2015	Supply-side structural reform	Reduction of excess capacity in steel, cement and coal
2016	The 13th Five-Year Plan	Integration of manufacturing and the internet, creating new value
2016	National Innovation-Driven Dev. Strategy Outline	Innovation-driven economic growth
2021	The 14th Five-Year Plan	Digital China

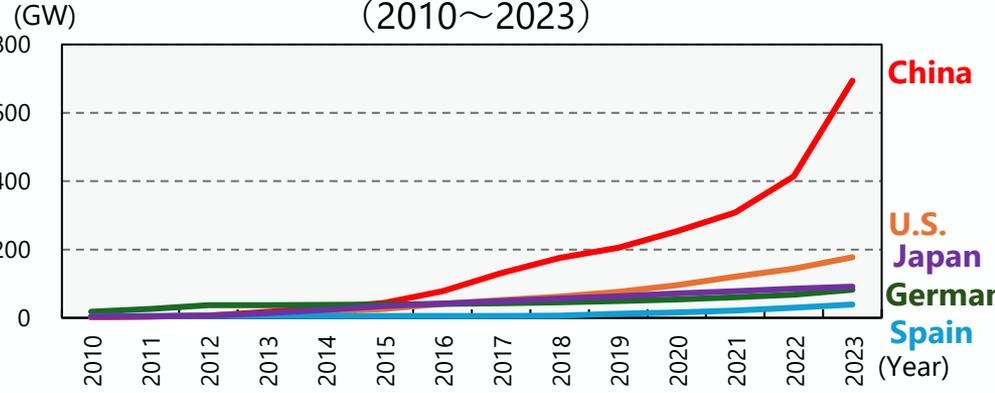
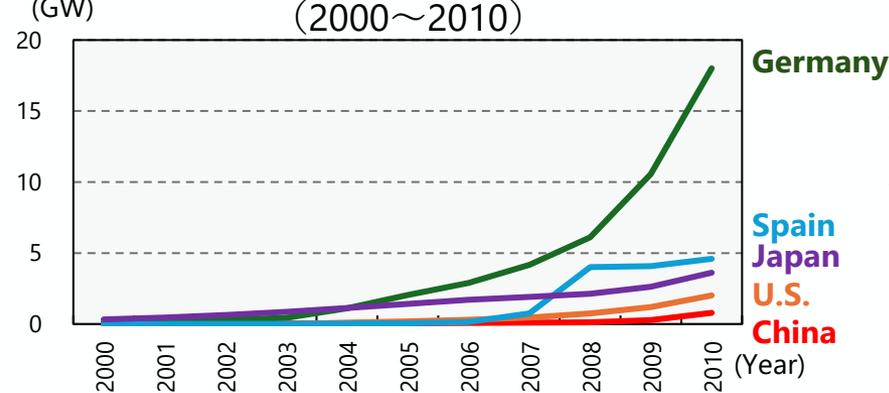
Note: At the 11th Five-Year Plan, the name previously referred to as '计划' was changed to '规划' in Chinese, while still referred to as 'Plan' in English.

Source: METI, referencing Watanabe (2025), Marukawa (2025), and others.

A Case of China's Industrial Development: Solar Cell Industry

- China's **central gov's industrial policies**, **competition among local gov's**, and **economies of scale** played different roles in each industry.
- The solar cell industry's initial export-led growth was **led by private companies**, supported by local gov's. **Overseas import restrictions** made the central gov. take **policies to expand domestic demand**, leading to **rapid industrial development**.

Installed Capacity of Solar Power Generation in Major Countries



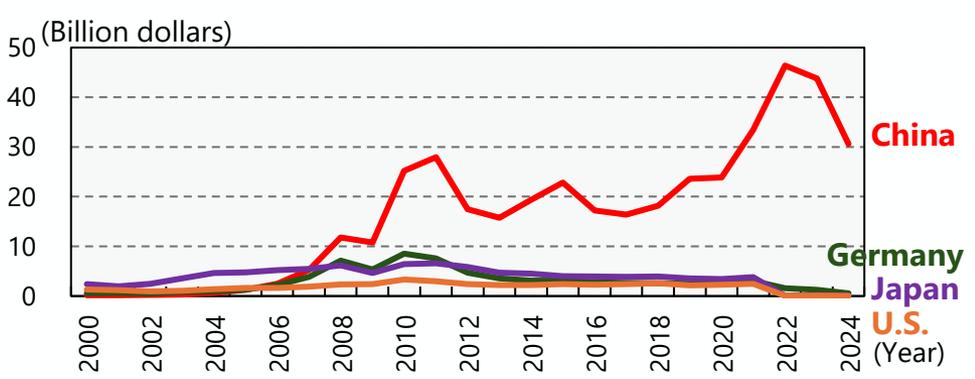
Note: The scales on the vertical axis are different in the left and right figures. Source: IEA 'PVPS Trends in Photovoltaic Applications 2024' (accessed March 12, 2025).

China's Installed Capacity Targets for Solar Power Generation

Year	Legislation and plans	Main Contents
2007	Mid- to Long-Term Development Plan for Renewable Energy	1.8 GW by 2020
2012	The 12th Five-Year Plan for the Development of Solar Power Generation	21 GW by 2015
2013	The State Council, Significant Increase in Targets	35 GW by 2015
2017	The 13th Five-Year Plan for Renewable Energy Development	150 GW by 2020
2021	Notifications and Actions from the Central Committee of the Communist Party of China and the State Council	a combined total of 1200 GW for wind and solar power generation

[Left bottom figure] Source: Marukawa (2025).

Export Value of Solar Cells in Major Countries

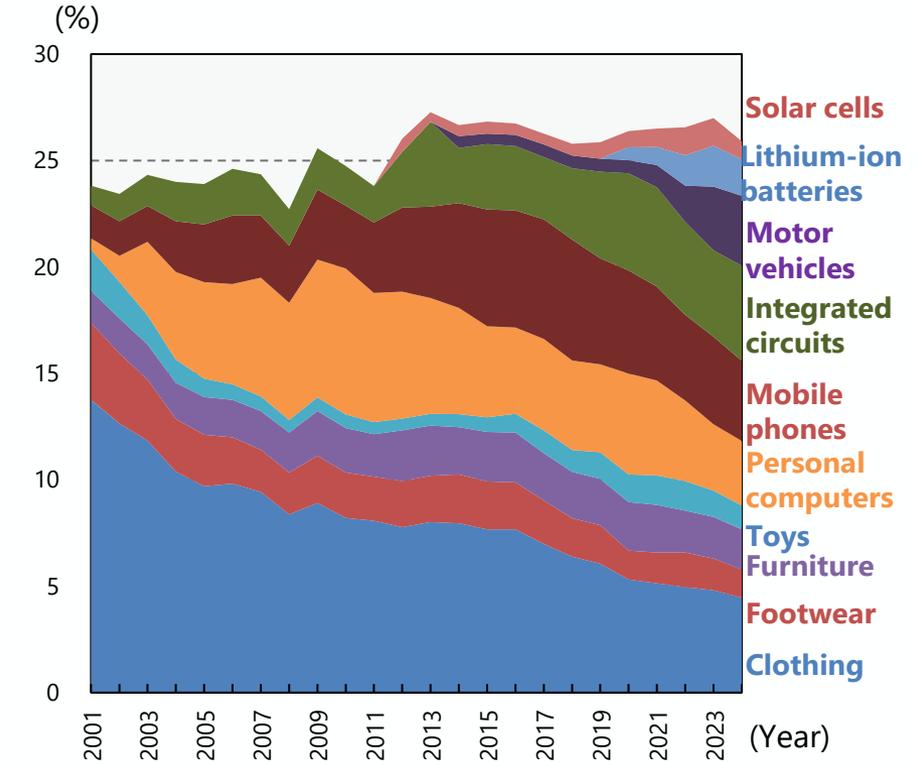


[Right bottom figure] Note: For solar cells, the total is displayed for HS854142 and HS854143 from 2022 onwards. Prior to 2021, the HS codes did not separate light-emitting diodes and solar cells, so the old HS854140, which included both, is displayed for convenience. As a result, there is a discontinuity in the statistics for 2022. Source: Global Trade Atlas.

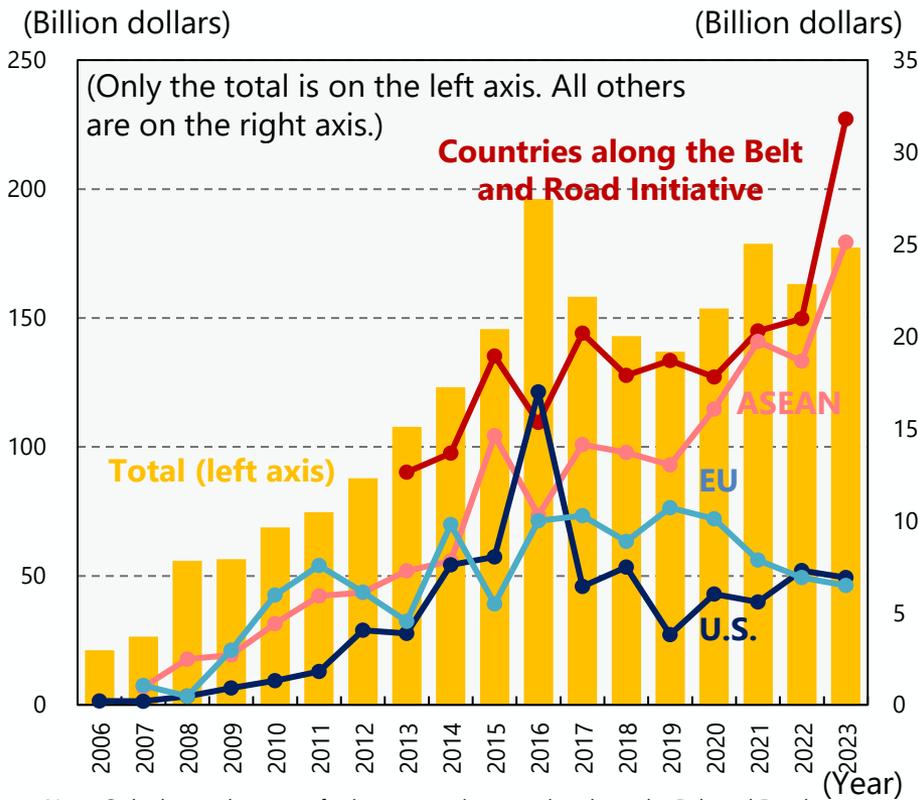
China Creating New Export Items and Expanding FDI

- China has consecutively created **new export items** by establishing **economies of scale in various industries**. China's **FDI in ASEAN countries and along the Belt and Road Initiative** is **rapidly expanding**.
- **The negative externalities of economies of scale** and **the deterioration of China's business environment** need to be addressed.

Share of Major Export Items (% of Total Exports)



Countries/Regions for China's FDI



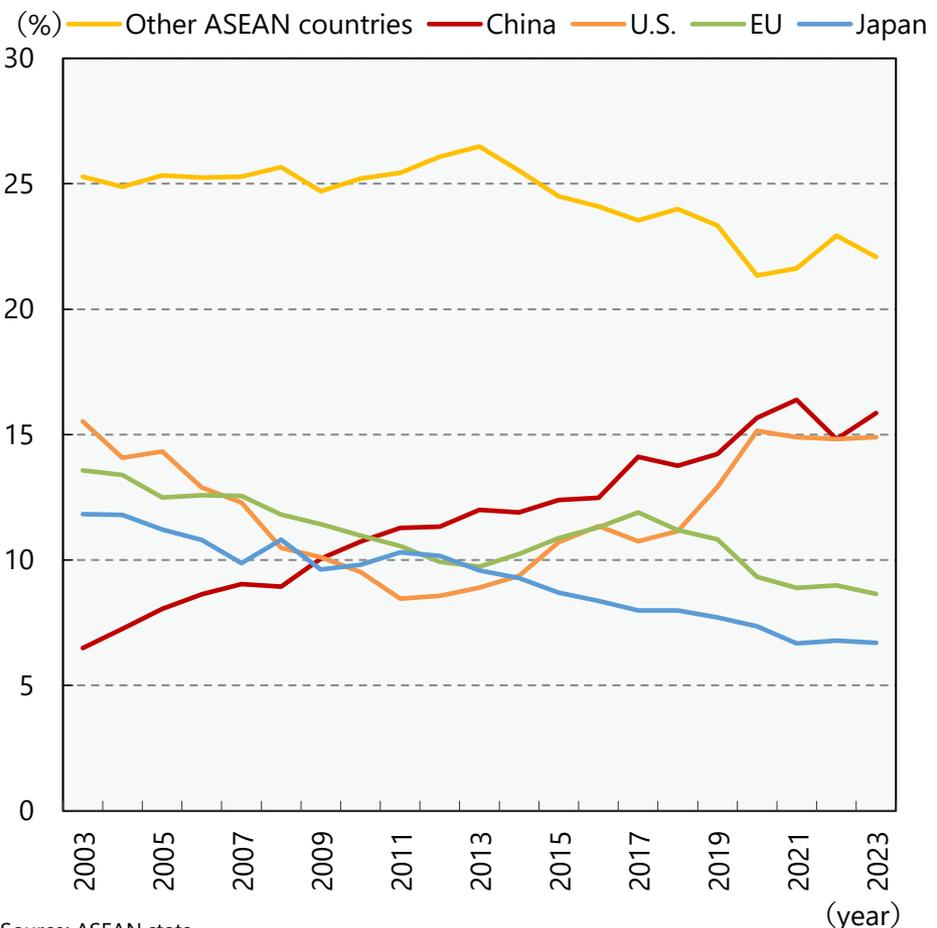
Note: The item classification is based on the classification published by China. The following items began to be disclosed from the specified years: motor vehicles (from 2014), lithium-ion batteries (from 2020), and solar cells (from 2012). Additionally, export items such as steel and chemicals, which have not seen significant changes in share, are not included in the chart. Source: General Administration of Customs of China and CEIC database.

Note: Only the total amount for investment in countries along the Belt and Road Initiative is publicly disclosed, and it is likely to include ASEAN. Investments in the financial sector have been excluded since 2020. Source: Ministry of Commerce of China and CEIC database.

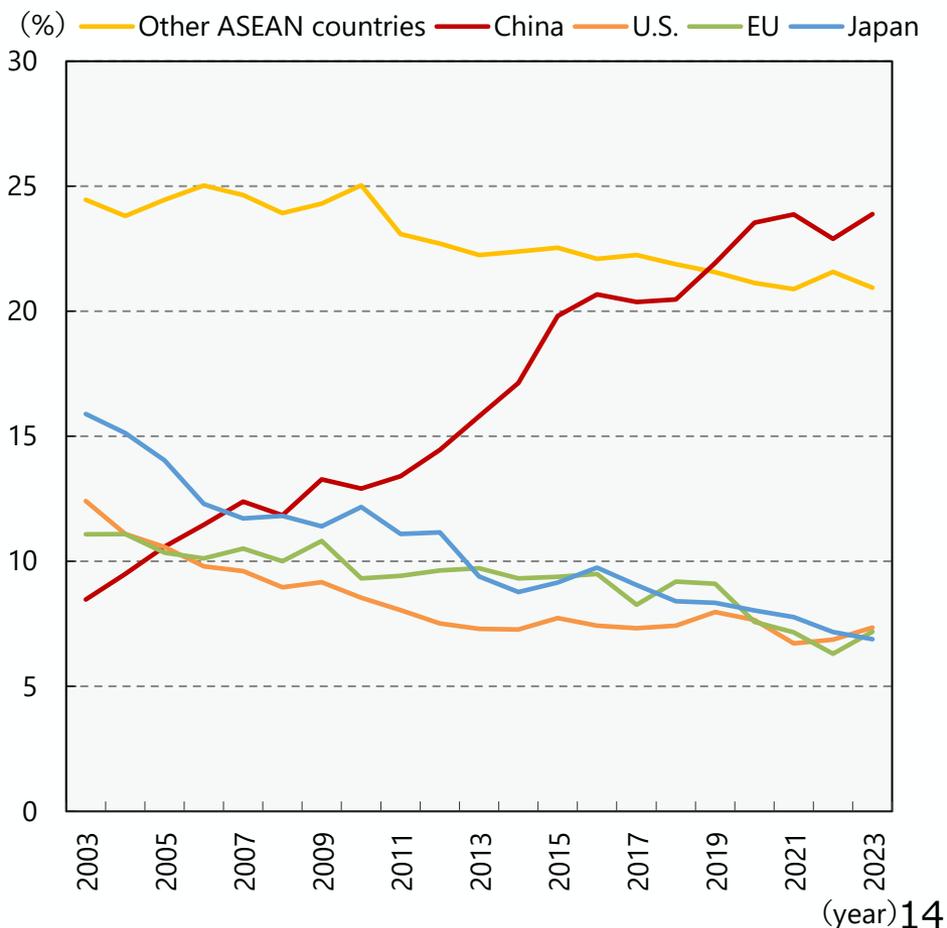
China's Increasing Share in ASEAN's Imports & Exports

- **ASEAN countries** have generally maintained an **omni-directional posture** in response to international environmental changes.
- The exports from ASEAN to the U.S. and China each account for approx. 15% while the share of imports from China has significantly increased.

ASEAN's Export Share by Destination Country/Region



ASEAN's Import Share by Origin Country/Region

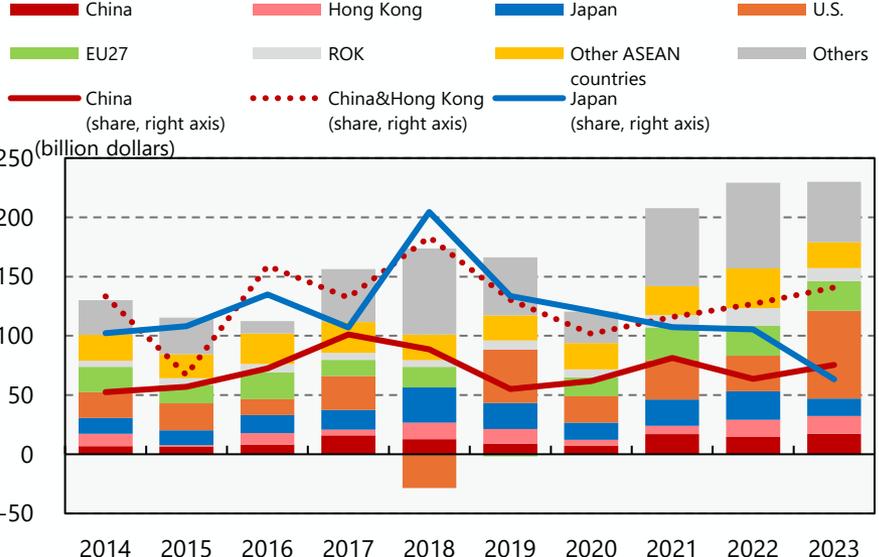


Source: ASEAN stats

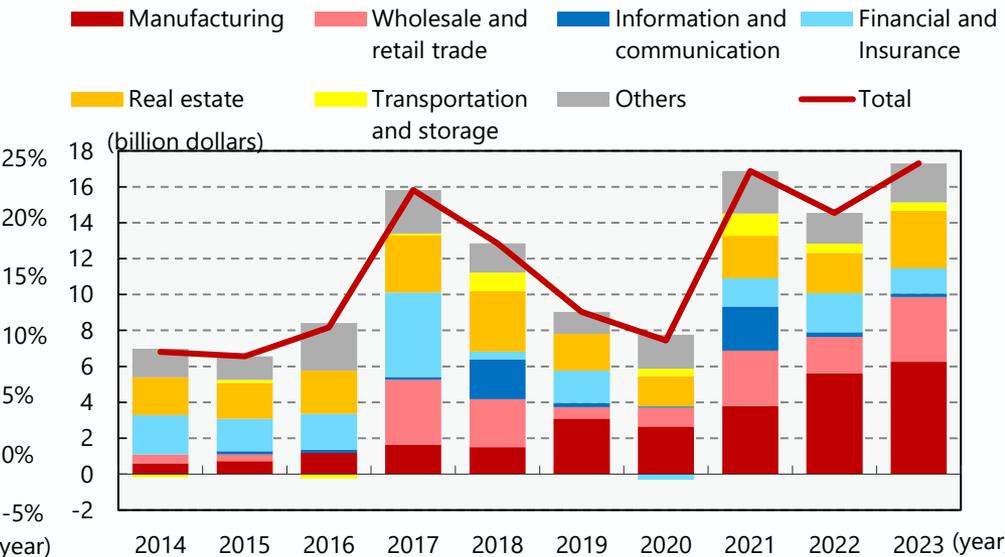
China's Increasing Share in ASEAN's Inward FDI

- Japan's share in FDI to ASEAN has declined and been surpassed by China. China's FDI in the manufacturing sector is steadily increasing.

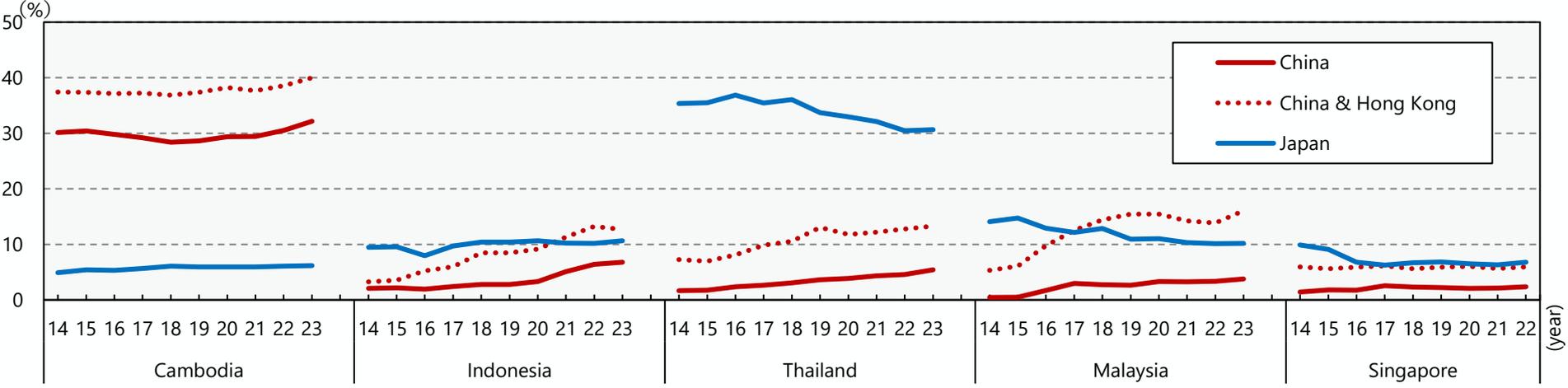
Inward FDI to ASEAN (by Country/Region)



FDI from China to ASEAN (by Industry)



FDI Stocks in ASEAN Countries (From Japan and China/Hong Kong)



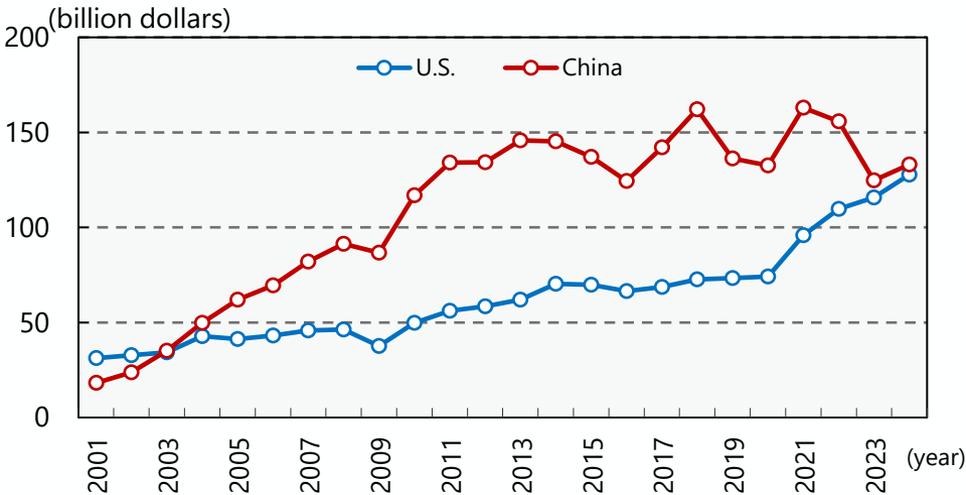
Note: The bottom figure displays only the countries for which data is available. The data for Singapore in 2023 has not been released.

Source: All figures obtained from ASEAN stats.

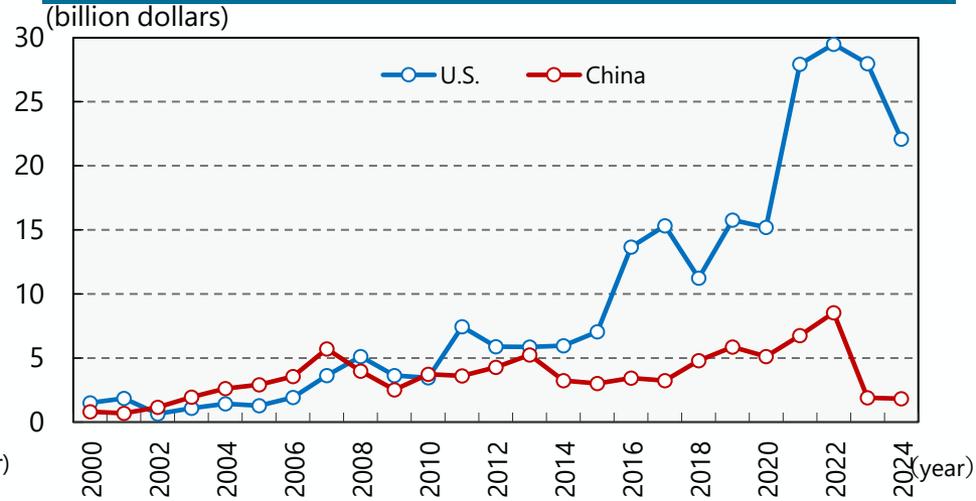
The ROK/India's Changing Relationships with China

- **The ROK** has shifted its exports and FDI toward the U.S.
- **India** aims to nurture domestic manufacturing through protectionism. FDI from China is minimal, but imports are significant.

The ROK's exports to the U.S. and China



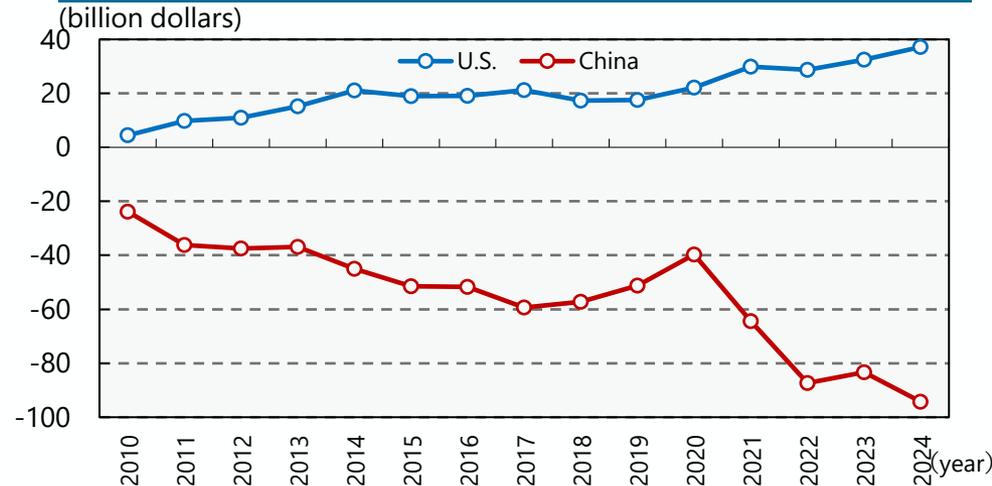
The ROK's FDI to the U.S. and China



India's Trade in Goods and FDI with Japan, the U.S., and China (2024)

	Trade in Goods		FDI (Share of FDI to India)
	Share of Exports from India by Country	Share of Imports to India by Country	
Japan	1.3%	2.6%	3.4%
U.S.	18.2%	6.1%	11.1%
China	3.4%	15.3%	0.01%

India's Trade Balance with the U.S. and China

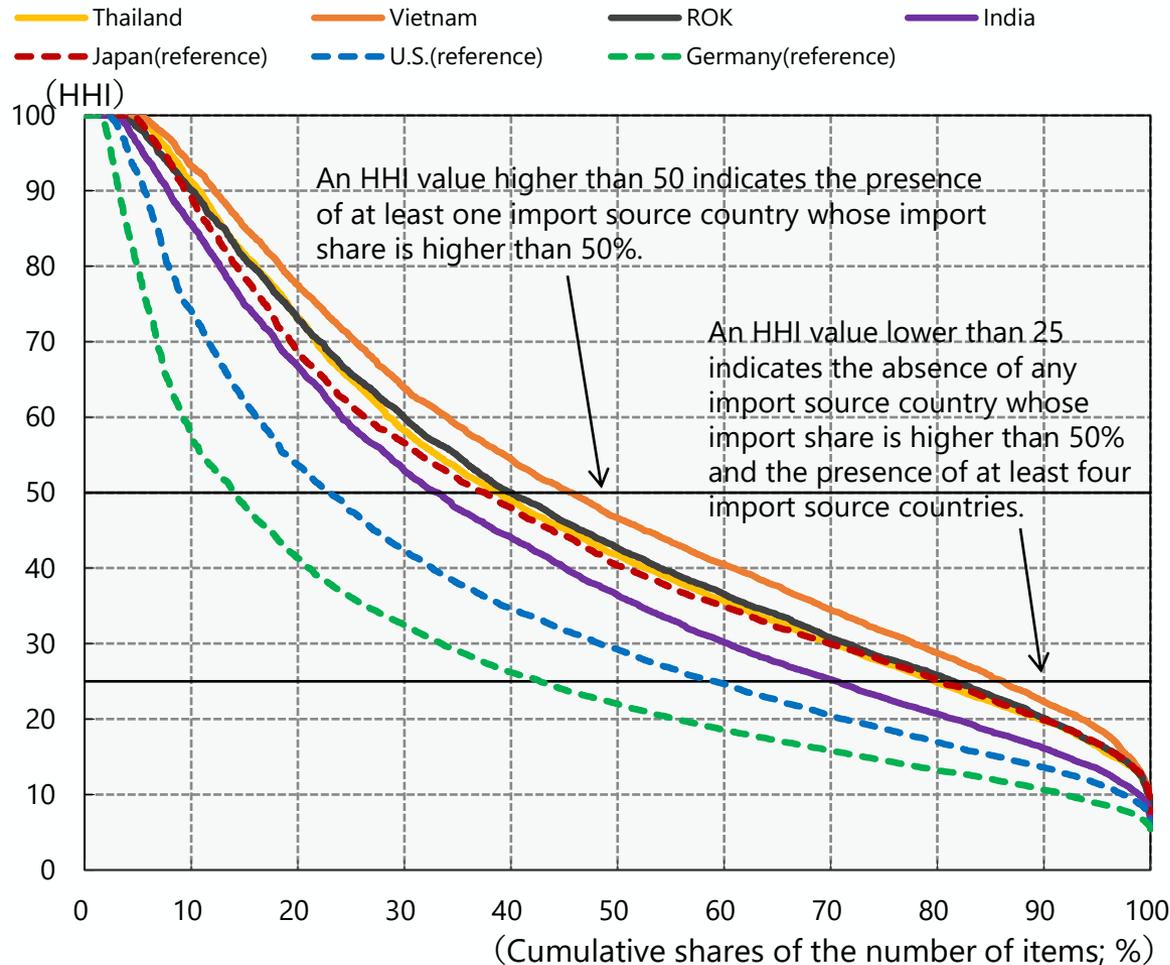


[Top left figure, Bottom right figure] Source: Global Trade Atlas [Top right figure] Source: Korea Export-Import Bank [Bottom right figure] Source: Global Trade Atlas, Ministry of Commerce and Industry, India, and CEIC database

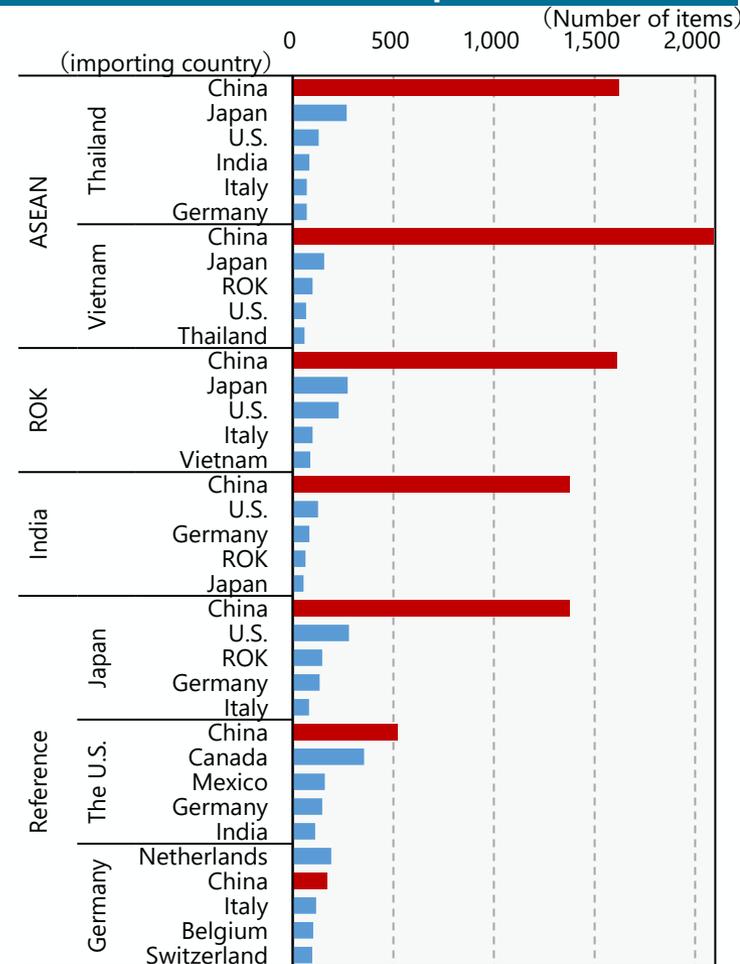
Asian Countries Dependent on Imports from China

- ASEAN countries, the ROK, India, and Japan have a **higher dependence** on **imports from specific countries** compared to the U.S. and Germany.
- Asian countries depend on China for 50+% of imports for numerous items.

Distribution of the HHI Values in Asian Countries (2023)



Number of Items Dependent on Specific Import Sources for 50+% of Imports (2023)



Note: Focusing on industrial products (HS codes 25 to 97), the data is aggregated using a 6-digit HS code. The Herfindahl-Hirschman Index (HHI) for imports is calculated by dividing the sum of the squares of the shares of import source countries by 100. The HHI value is 100 when there is single import sourcing country, and it approaches zero as import sources diversify. Source: Global Trade Atlas

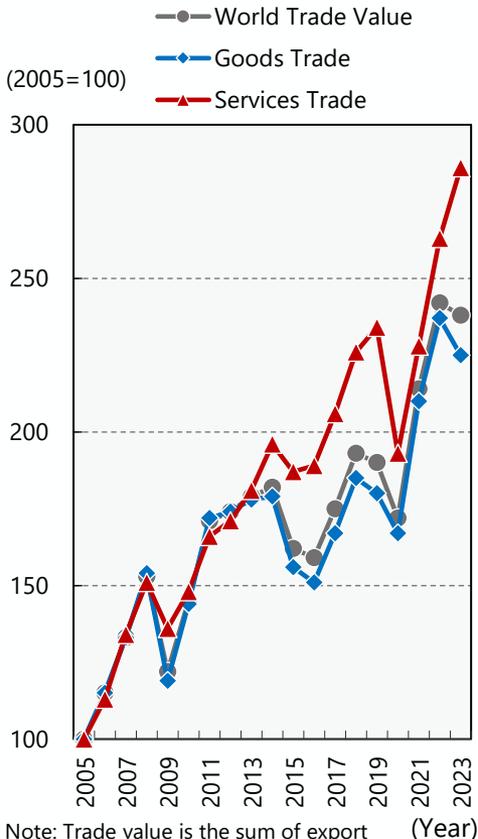
3. Discussions on New Industrial Policies and Negative Externalities of Certain Industrial Policies

- In recent years, international discussions on how to deal with **digitalization**, **green transition**, and **supply chain resilience** have made progress, and various initiatives have been developed in major countries and international forums.
- Not only Japan but also the U.S. and EU are promoting **new industrial policies** that aim to integrate those efforts to address the abovementioned **socio-economic challenges** with those to achieve **industrial development**.
- In order to strengthen the international economic order, it is important to foster **international collaboration** among countries and **strengthen rules** to address issues such as **market-distorting measures and the weaponization of economic dependencies**.

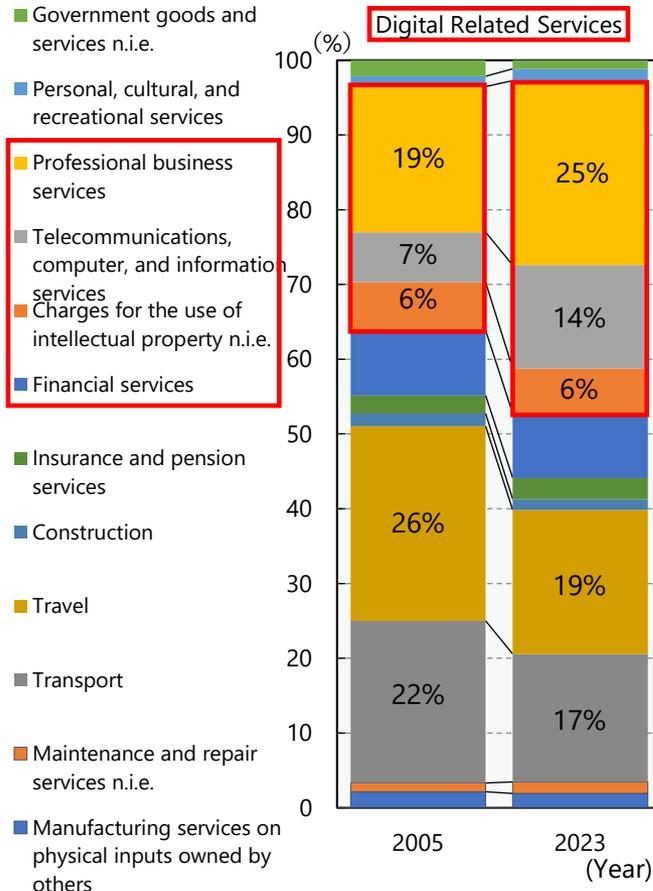
Growing Trade in Services Driven by Digitalization

- Over the past 20 years, the growth rate of **trade in services has outpaced that in goods trade, driven by digital-related services**. U.S. digital companies provide cross-border services not only from the U.S. but also from countries like Singapore and Ireland.
- Japan's digital trade deficit as a ratio to GDP** is at a level **comparable to that of Germany, France and the ROK**.

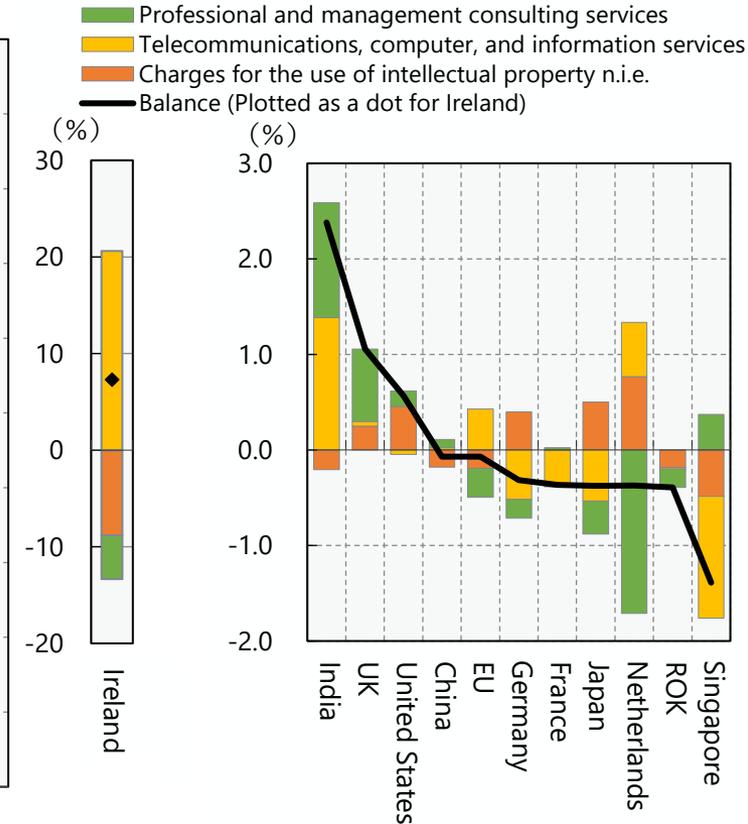
Global Trade in Goods & Services



Share of Global Services Export



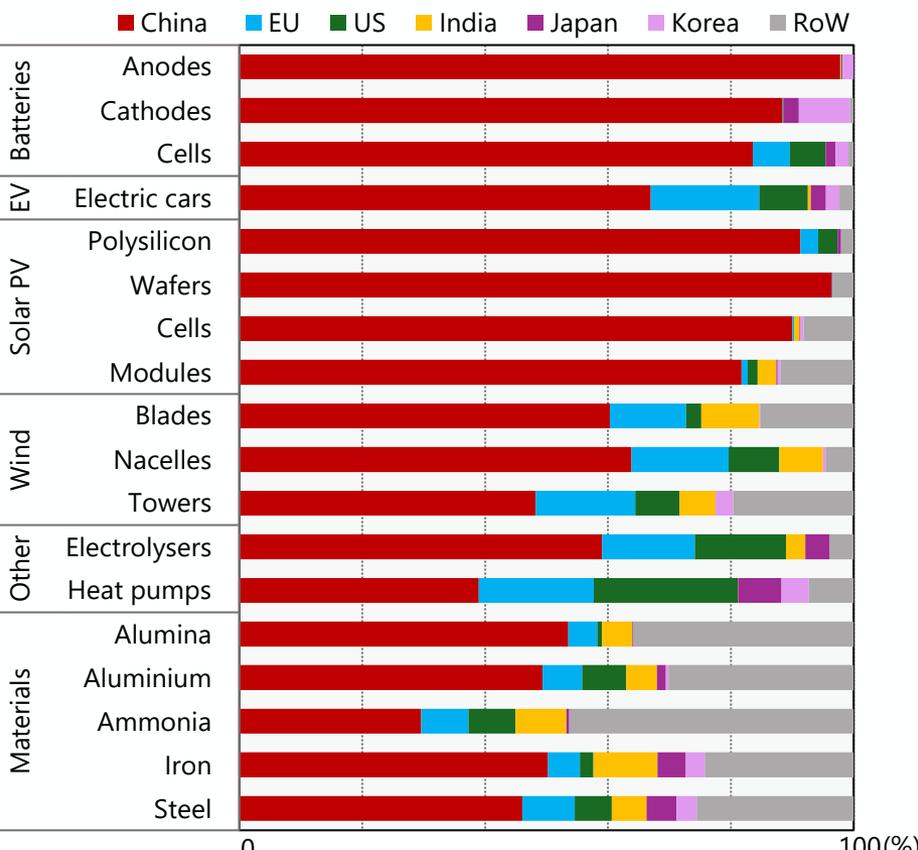
Trade Balance in Digital Related Services (% of GDP)



Green Transition and Supply Chain Resilience Regarding Critical Minerals

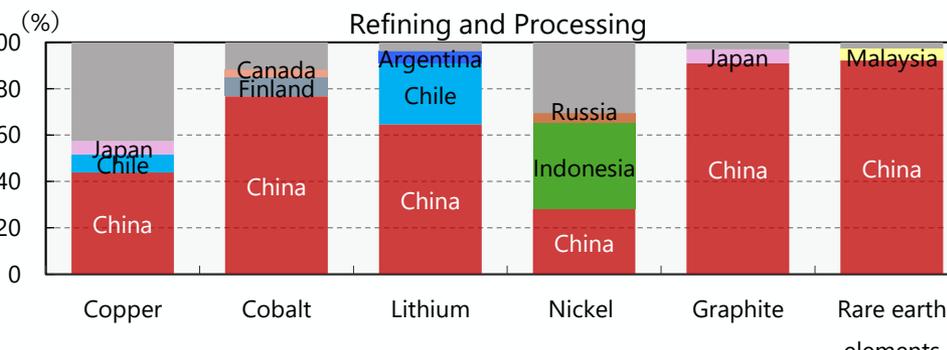
- **Green transition** poses challenges for **industrial development related to key products and services**, as well as for **enhancing supply chain resilience**.
- The **geographical concentration of supply chains**, particularly **concerning critical minerals**, has become a significant challenge. Various initiatives are being undertaken by interested countries and in international forums.

Share of Manufacturing Capacity by Green-Related Products



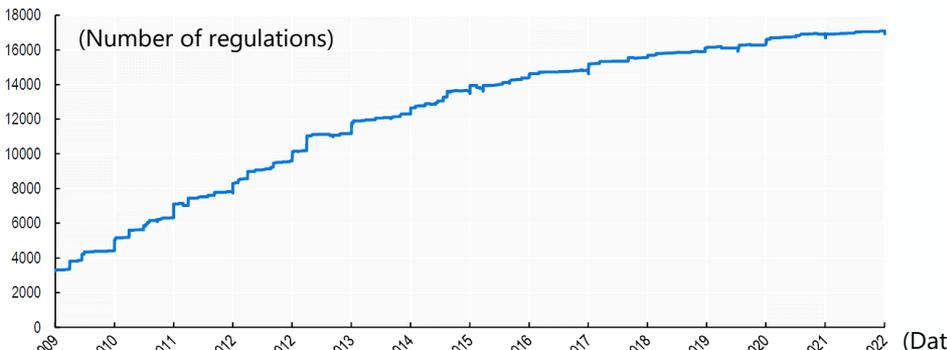
Note: Values are as of the end of 2023. Anodes for positive electrodes and cathodes for negative electrodes are both components of batteries.
Source: IEA Energy Technology Perspectives 2024

Share of Refining and Processing of Critical Minerals



Note: Values are as of 2023. The gray section represents other countries and regions.
Source: IEA

Export Regulations on Industrial Raw Materials



Note: Bilateral measures are excluded.
Source: OECD

New Industrial Policies & Negative Externalities of Certain Industrial Policies

- In recent years, **new industrial policies aiming at industrial development while addressing socio-economic challenges** have been discussed and reflected in the industrial policies of major countries.
- In order to strengthen the international economic order, it is necessary to address **international negative externalities caused by certain industrial policies**, such as market-distorting measures, non-commercial behaviors of state-owned enterprises, and the weaponization of economic dependencies.

New Industrial Policies

Recognizing the issues related to the Washington Consensus, **industrial policies addressing new socio-economic challenges have been called for.**



New industrial policy arguments

- Recognizing **the government and market** as **complementary** rather than as a dichotomy
- Addressing not only market failures but also **broader policy objectives**
- Employing not only targeting but also **horizontal policies**

E.g., Mazzucato's Mission Economy



Japan: New Direction of Economic and Industrial Policies
U.S.: Former National Security Advisor Sullivan's speech on the New Washington Consensus
EU: Draghi Report / Competitiveness Compass

Negative Externalities of Certain Industrial Policies

The international negative externalities of certain Industrial policies have been recognized and partly addressed by existing trade rules. (E.g., the WTO SCM Agreement and the EPA State-Owned Enterprises Chapters)



Modern Challenges

Market-distorting measures, non-commercial behavior of state-owned enterprises, the weaponization of economic dependencies, etc.



To strengthen the international economic order, it is necessary to **foster international collaboration and strengthen rules** that address **international negative externalities or the adverse effects of economies of scale as well as the abuse of trade rules.**

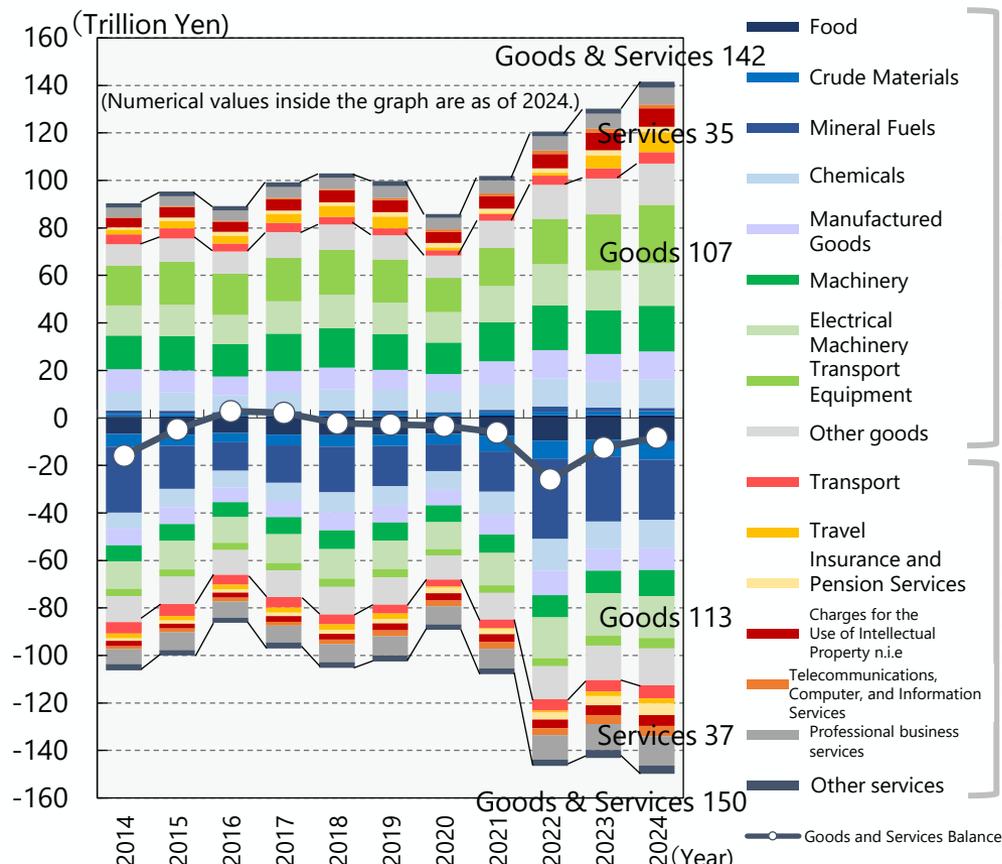
4. Japan's Trade & Investment: Service Value Added / Global Strategies

- Japan's **goods exports have gradually declined in volume**, and **the terms of trade have deteriorated**. Creating new export products and exporting companies by increasing value added is necessary.
- **It is important to increase value added by services**, including services that are intermediate inputs for goods, **to enhance exports of both goods and services** that leverage Japan's strengths.
- According to a survey of **manufacturing companies, India, Japan and the U.S. are prioritized** in their investment plans. **Co-creation to address socio-economic challenges overseas**, including in **Global South countries**, is recognized as a growth opportunity.
- **The content industry** indicated that **opportunities for overseas expansion are further growing** after the pandemic, and **support for diverse cross-border transactions**, including goods, services, licenses, and FDI, **is necessary**.
- Building on the history of economic and industrial cooperation with ASEAN countries, Japan aims to **establish win-win relationships** through **co-creation with Global South countries**, incorporating growth potential, fostering innovation, and strengthening supply chains.

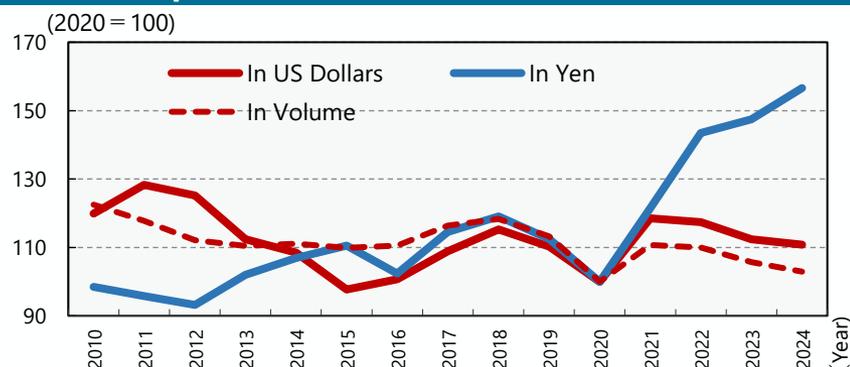
Japan's International Balance of Payments

- Japan's balance of goods and services shows **exports at ¥142T** and **imports at ¥150T** in 2024. **Goods exports** have **gradually declined in volume** since 2021. **The share of services** in total exports has been on **an upward trend**, apart from the pandemic period.
- FDI income sources are roughly equal among the U.S. (26%), Europe (25%), and Asia (excluding China) (25%)** in 2024.

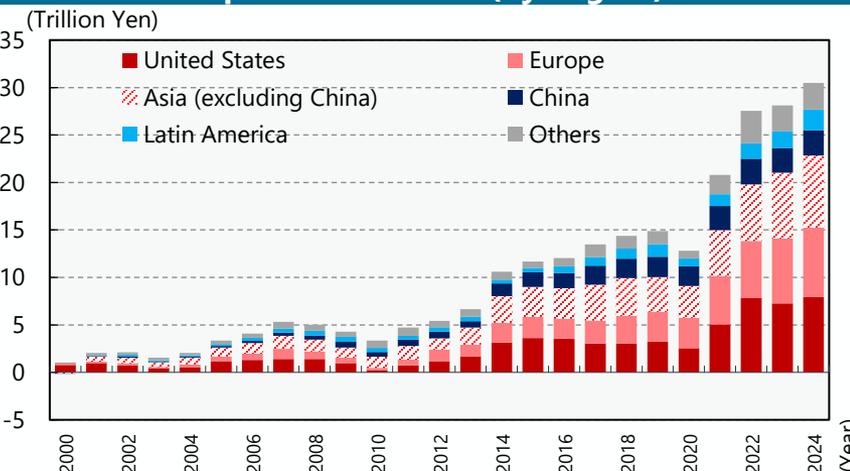
Japan's Balance of Payments in Goods and Services



Export of Goods in USD and in Volume



Japan's FDI Income (By Region)



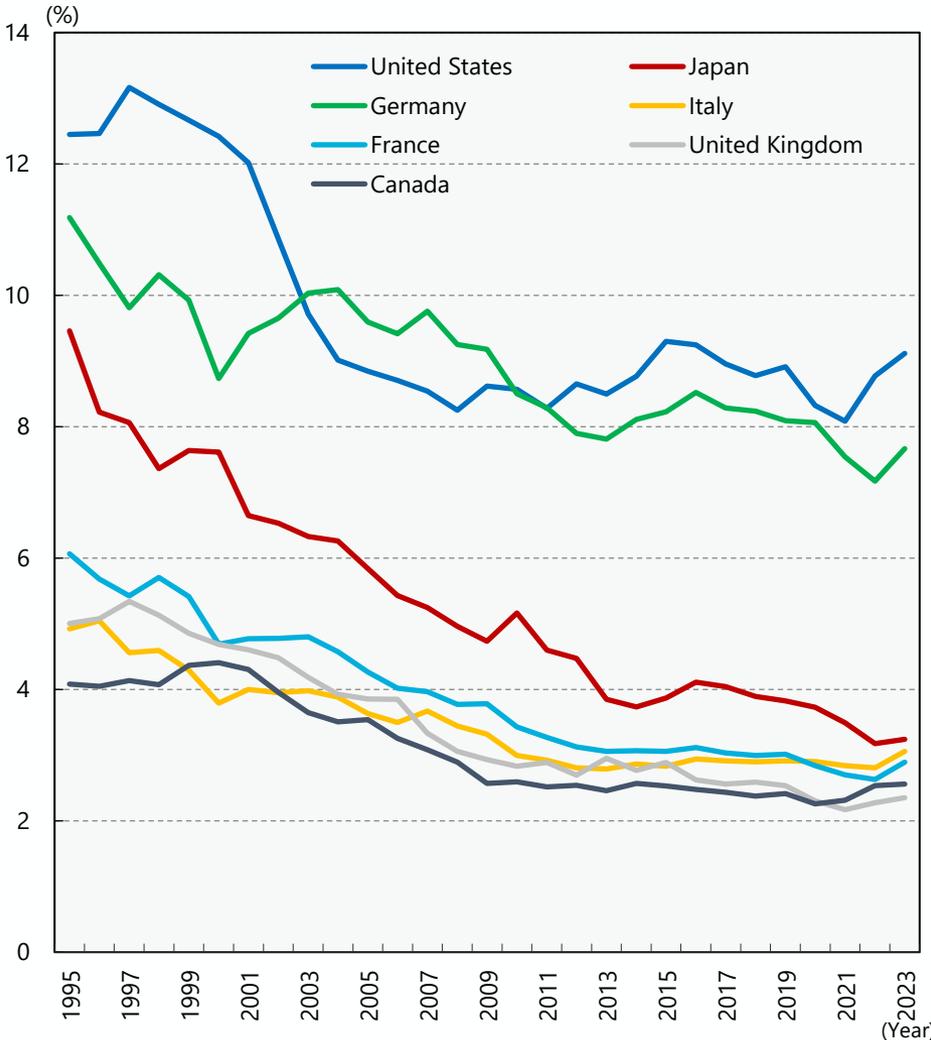
[Left figure] Notes: The figure shows the import values with the positive and negative values reversed. "Food" includes food products and animals, as well as beverages and tobacco. Other business services is called "Professional business services" here. Sources: Trade Statistics, MOF, Balance of Payments Statistics, MOF, BOJ.

[Upper right figure] Source: Trade Overview in Dollar Terms (provisional translation), JETRO [Lower right figure] Source: Balance of Payments Statistics, MOF, BOJ.

Improving the Terms of Trade is Crucial

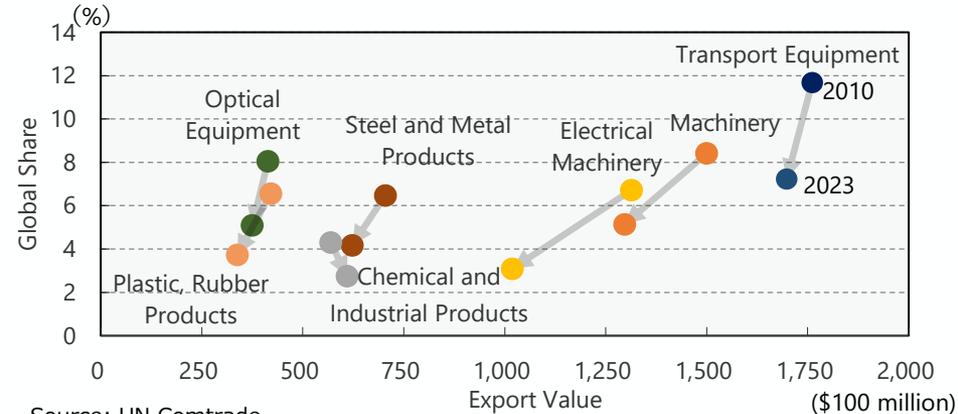
- Japan's share in the global exports is gradually declining, as a whole and by major export items.
- Improving the terms of trade is crucial. Leveraging the existing industrial agglomerations, it is essential to increase exports of new high value-added products through innovation.

Developed Countries' Share in Global Exports



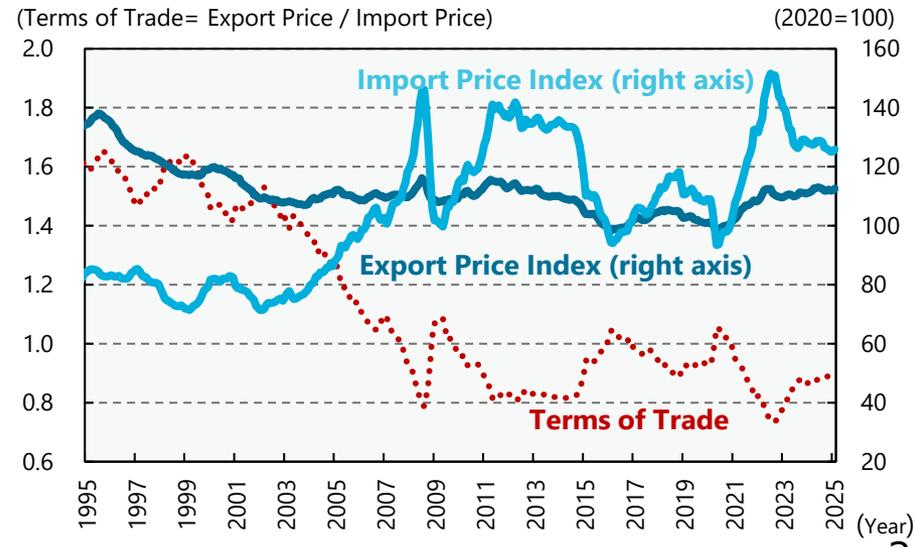
Note: Calculated based on export values in US dollars. Source: UN Comtrade.

Japan's Share by Type of Goods



Source: UN Comtrade.

The Terms of Trade

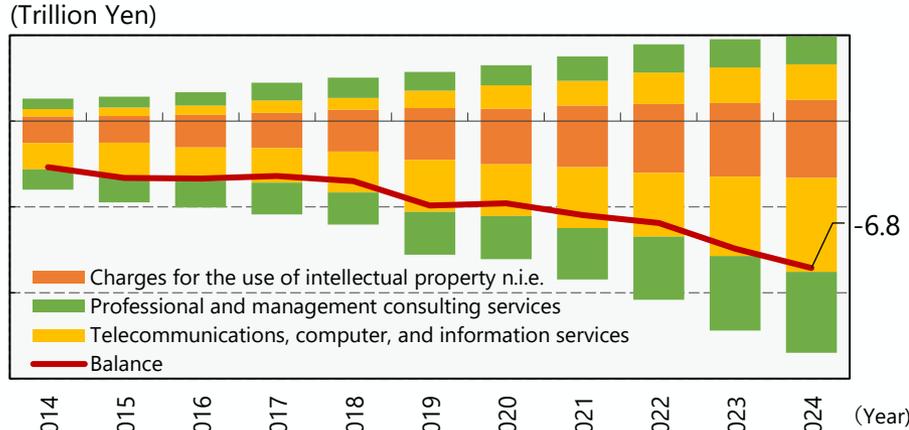


Note: Figures are on a contract currency basis. Source: Corporate Goods Price Index, BOJ.

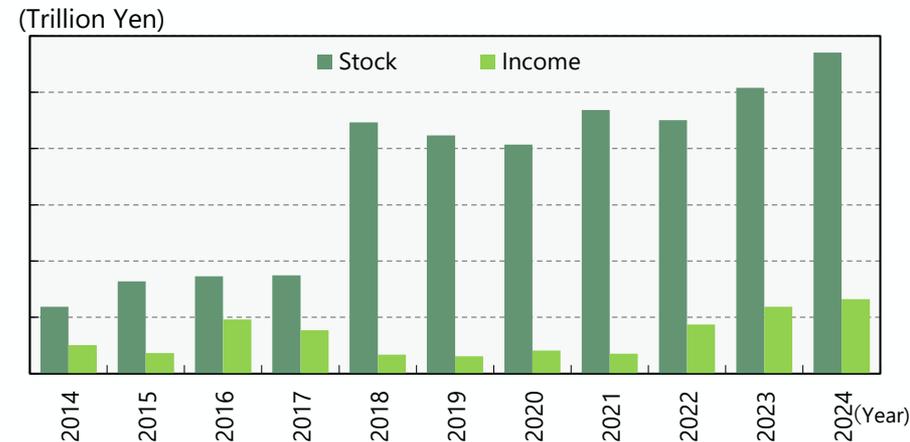
Digital Trade Deficit Recorded with the U.S., Singapore, Etc.

- **Digital-related services are imported** not only **from the U.S.** but also **from countries such as Singapore**, where many Big Tech companies are located.
- **Inward FDI in the telecom industry**, including data centers, is also **on the rise**.

Digital Trade Balance

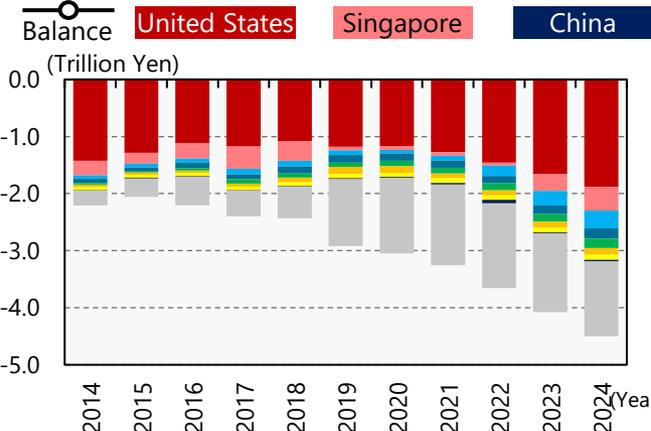


Japan's Telecom Industry's Inward FDI and Income

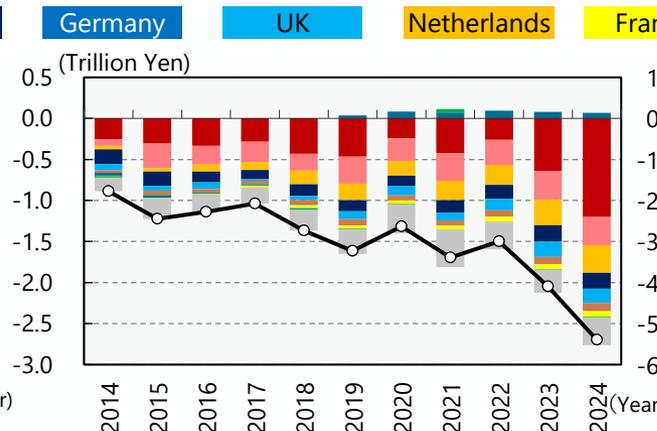


Note: The figures in the left graph show the import values with the positive and negative values reversed. (Both Graphs) Source: Balance of Payments Statistics, MOF, BOJ.

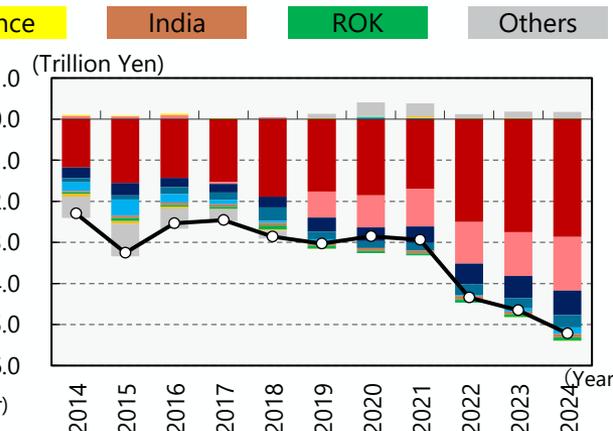
Imports of Charges for the Use of Intellectual Property n.i.e. (By Country)



Balance of Telecommunications, Computer, and Information Services (By Country)



Balance of Professional Business Services (By Country)

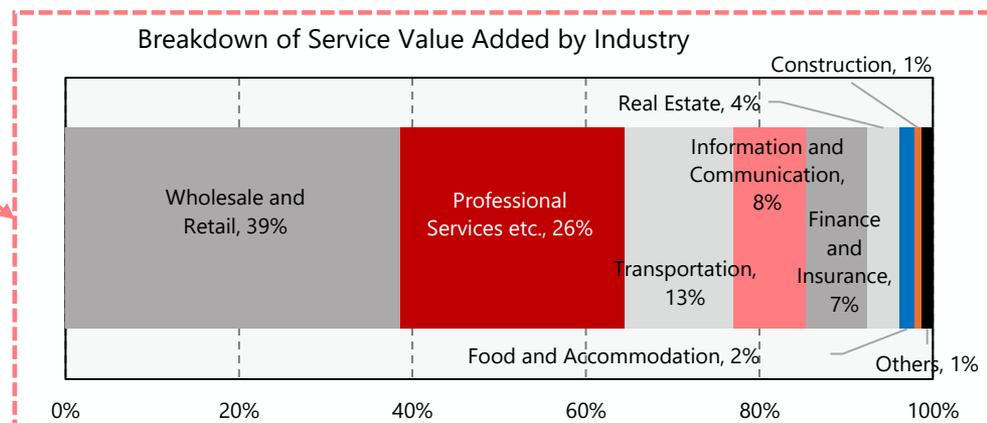
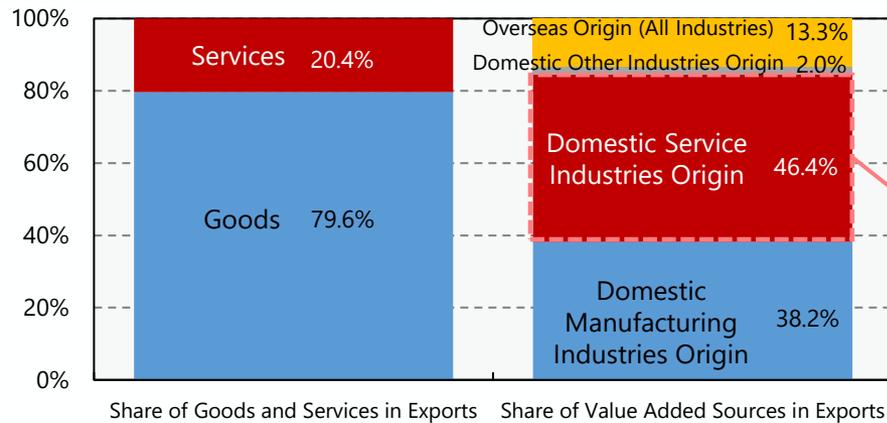


Notes: 1. In the left figure, Charges for the use of intellectual property n.i.e. include "Charges for the use of industrial property n.i.e." and "Charges for the use of copyrights n.i.e." The figures show the import values with the positive and negative values reversed. 2. In the right figure, Other business services is called Professional business services here. Professional business services include "Research and development services", "Professional and management consulting services", and "Technical, trade-related, and other business services". The figures of the balance of individual services by country are not disclosed. Source: Balance of Payments Statistics, MOF, BOJ.

Strengthening Service Value Added (VA)

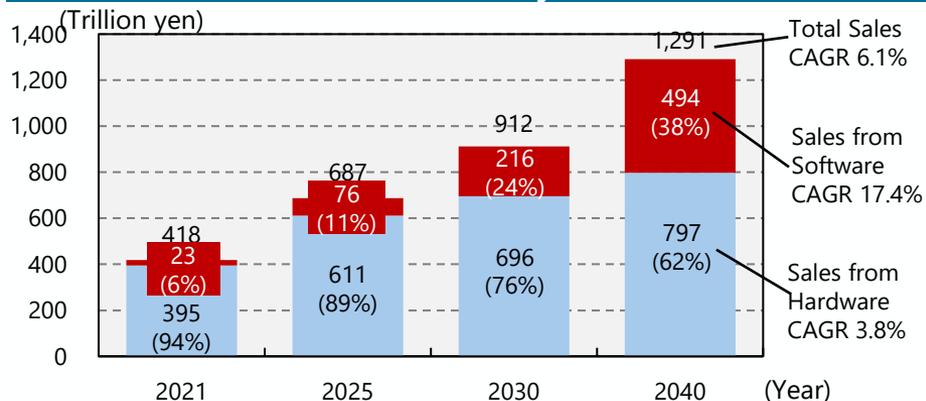
- For exports of goods & services the share of **VA by dom. services exceeds that of dom. manufacturing. VA by services embodied in goods** (e.g., software in cars) is increasing. Strengthening VA by **specialized services, IC services**, etc., is **vital**.
- Service VA** is crucial in the sale of goods overseas. **Non-manufacturing entities** (e.g., advertisement and sales finance) **established by dom. manufacturing companies** account for **nearly 30% of the recent sales of overseas subsidiaries**.

VA by Dom. Services in Japan's Exports of Goods and Services (2020)



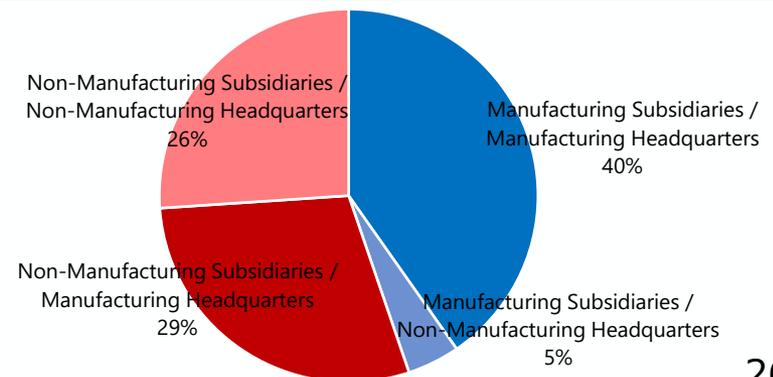
Note: Others include agriculture, forestry, fisheries, mining, and electricity, gas, and water supply. Wholesale and retail also include automobile maintenance and repair. Source: OECD TiVA.

Global Auto OEM Sales Forecast (by Hardware and Software)



Note: Reorganized by PIVOT, based on the Mobility DX Strategy from METI and MLIT. CAGR refers to Compound Annual Growth Rate. The figures in parentheses within the bar graph represent the composition ratio. Source: Digital Economy Report by METI's new policy project for young officials, PIVOT.

Sales Composition by Industry of Japanese Overseas Subsidiaries (FY2022)



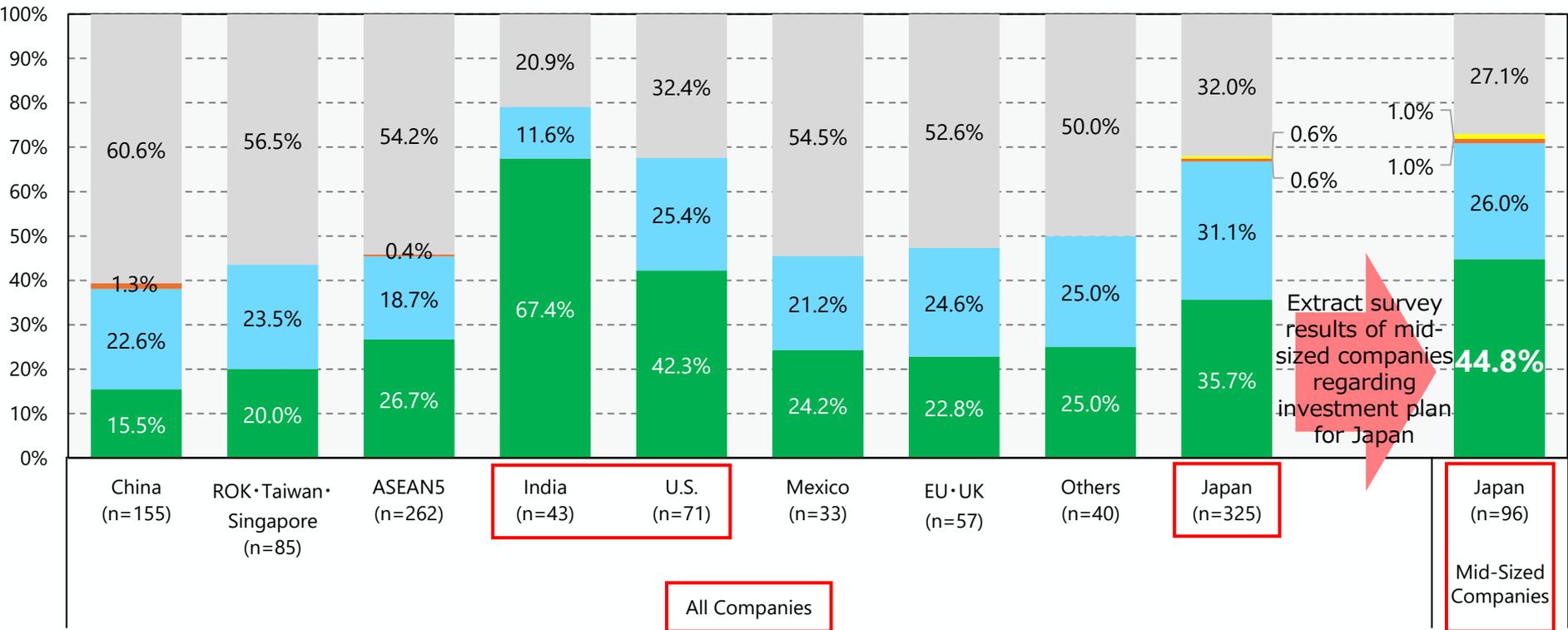
Source: Basic Survey on Overseas Business Activities (METI).

India, Japan and the U.S. Attract Manufacturing Investments

- A questionnaire survey of manufacturing companies with overseas bases indicates **increased investment plans in India, Japan, and the U.S.** over the next 3 years. Mid-sized companies have more plans in Japan.
- There are **fewer investment plans in ASEAN**, the traditional manufacturing base for Japanese companies. Given the intensifying competition, it is crucial to **invest for competitiveness, including in the areas of DX & GX.**

Investment Plans for Production Bases over the Next 3 Years

- New establishments and expansion of production capacity
- Maintaining production capacity at existing bases
- Partial or complete relocation of bases to a third country
- Reduction or withdrawal of bases
- No investment plans



Extract survey results of mid-sized companies regarding investment plan for Japan

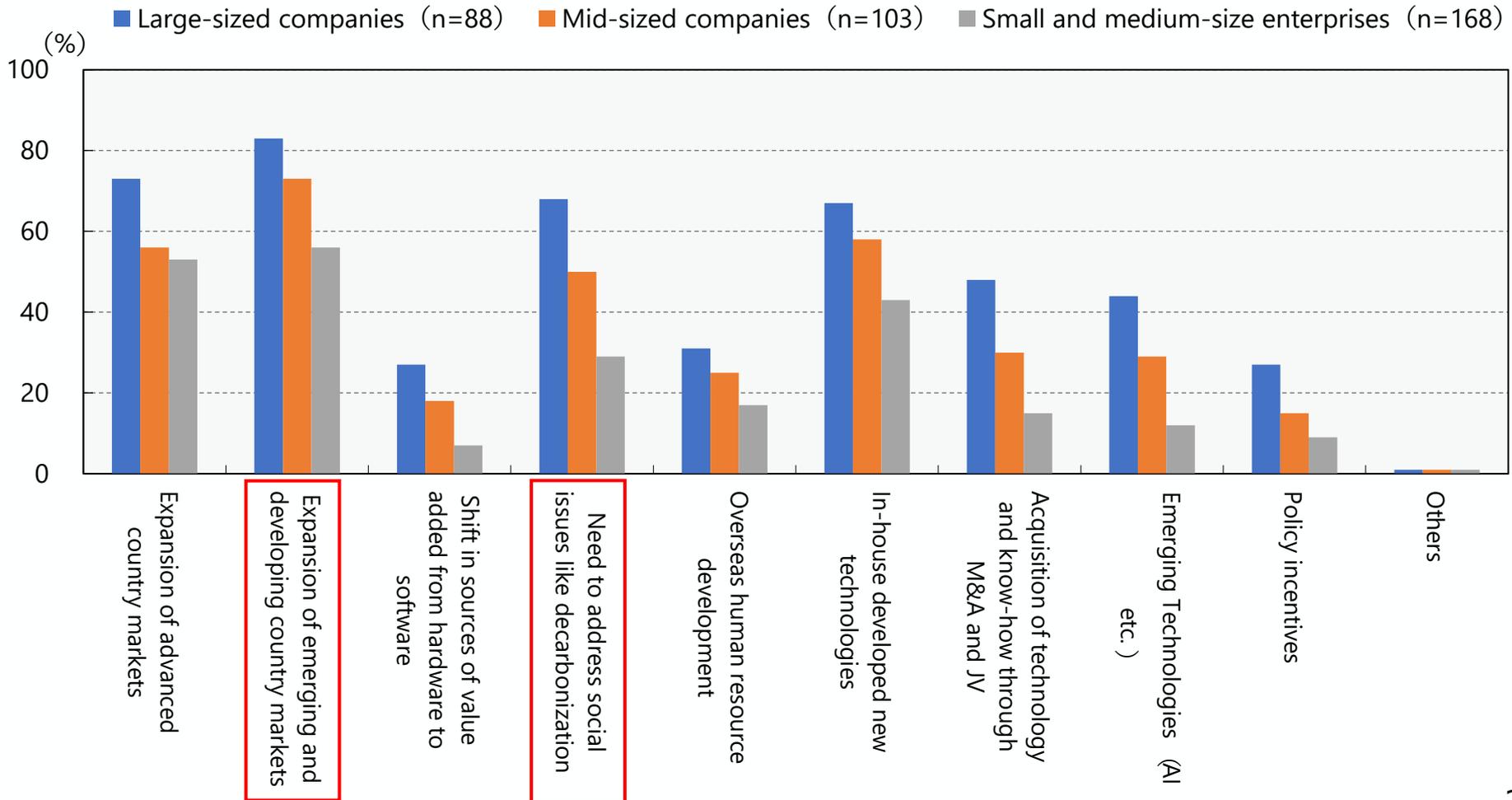
Note: For each country/region on the horizontal axis, the results from companies that answered "already have production bases" or "have investment plans in the next three years" regarding their specific investment plans are provided in a single answer format (SA).

Source: Created from the Deloitte Tohmatsu Financial Advisory LLC survey Global Location and Investment Strategies of Japanese Companies (FY 2024). The survey received responses from 359 manufacturing companies with overseas bases (response rate: 10.1%) between January 20 and February 7, 2025.

Opportunities in Co-Creation with Global South Countries

- Large companies recognize **market expansion in emerging/developing countries** and **the need to address social issues such as decarbonization** as opportunities for global corporate growth. **Co-creation with Global South countries** is an essential opportunity.

Opportunities for Global Corporate Growth (by Company Size)

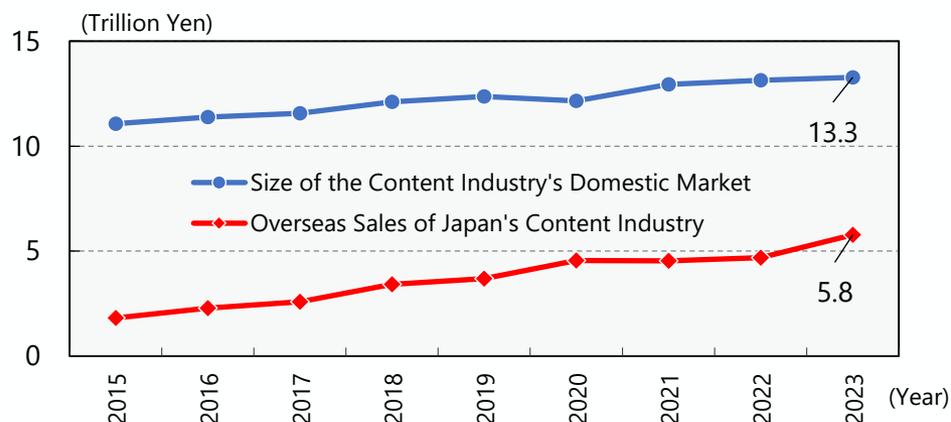


Note: Shows the percentage of responses to "Select all applicable items for opportunities for global corporate growth for your company."
 Source: Created from the Deloitte Tohmatsu Financial Advisory LLC survey Global Location and Investment Strategies of Japanese Companies (FY 2024).

Promoting Diverse Cross-Border Transactions of the Content Industry

- **New demands** in **the global content market** after the pandemic created **significant opportunities** for **Japan's content industry**.
- **Policy support** promoting **various cross-border transactions** involving goods, services, intellectual properties, and investments is essential.

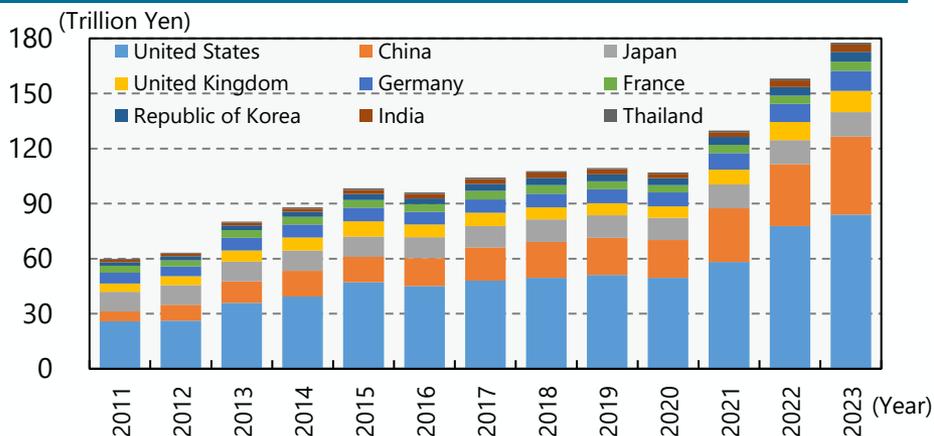
Content Industry's Domestic Market and Overseas Sales



Features of Content Industry's Overseas Expansion

1. The overseas expansion of the content industry involves a combination of **trade in goods** (such as merchandise and game console sales), **services and license transactions** (such as video streaming and licensing agreements), and **FDI**.
2. **High value-added content** is expected to generate **continuous profits**. While digital technology has made overseas expansion easier, it is crucial to exercise **the ability to identify the content** that will be accepted in local culture/values, as well as **to manage the brand not to undermine its value**.
3. **Tailored support for various forms of overseas expansion** is necessary. For example, building a fan base through performances abroad and adapting to local languages and cultures are essential activities, even if their direct profitability may be low.

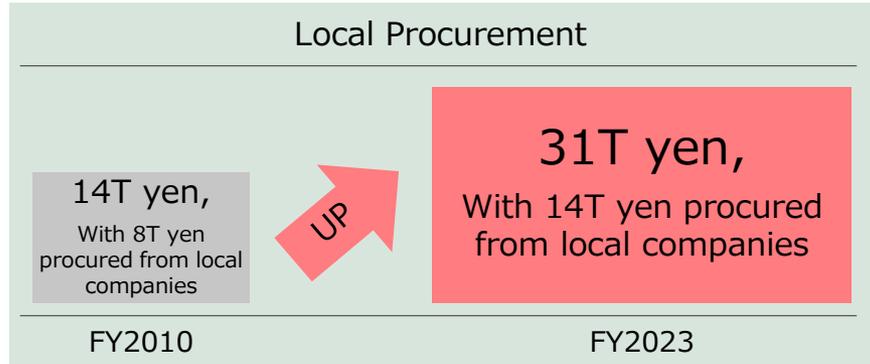
Content Industry's Market Size by Country



Opportunities for Co-Creation with Global South Countries

- Japan historically contributed to local employment, human resource development, and local procurement in ASEAN countries, thereby building **strong mutual trust**.
- Through **co-creation** to **jointly address respective socio-economic challenges**, we aim to establish **win-win relationships**, making a long-term commitment, enhancing innovation, and strengthening supply chains.

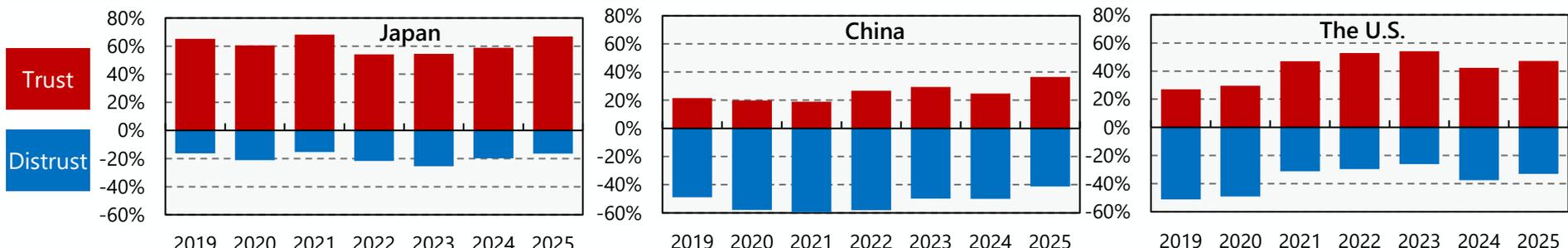
Employment and Local Procurement by Japanese Subsidiaries in ASEAN



Note: Employment refers to the number of regular employees. Local procurement is limited to sourcing within the country and excludes procurement from other ASEAN member countries. Both employment and procurement cover all industries, including non-manufacturing, with figures rounded to the nearest first or second decimal place.

Source: Basic Survey on Overseas Business Activities (METI) (figures are cumulative from survey responses).

Trust of ASEAN People toward Major Countries



Note : In response to the question, "How confident are you that the country/region will 'do the right thing' to contribute to global peace, security, prosperity, and governance?" respondents rated their confidence on a five-point scale: "No confidence," "Little confidence," "No comment," "Confident," and "Very confident." The total of "No confidence" and "Little confidence" is categorized as "Distrust," while "Confident" and "Very confident" are categorized as "Trust." The response rate for "No confidence" is displayed with inverted values.

Source: ISEAS The State of Southeast Asia Survey Report

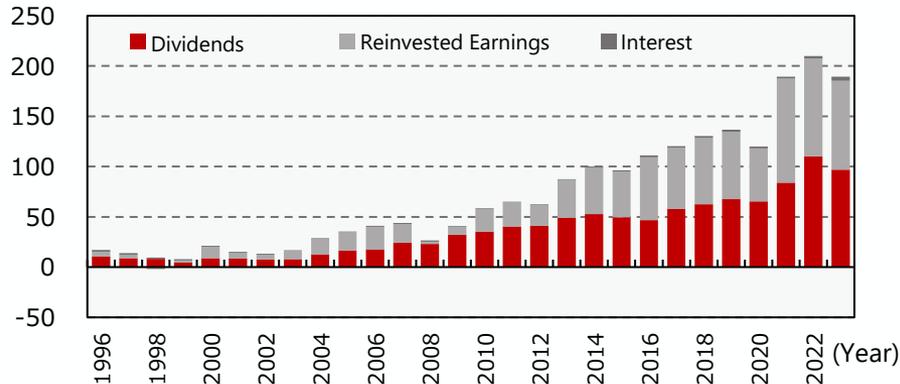
FDI Is and Will Be a Source of Earnings

- Japan's rate of dividends from FDI is at a level comparable to that of other developed countries. The FDI stock, including reinvestment, serves as a source of future earnings, and the profit rate has been on an upward trend in the medium- to long-term.

Dividend Repatriation

(Billion dollars)

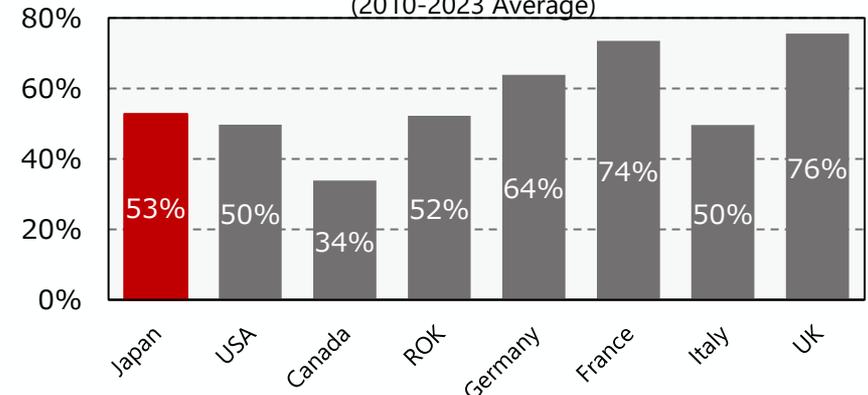
Japan's FDI Income



Source: Balance of Payments Statistics, IMF.

Rate of Dividends

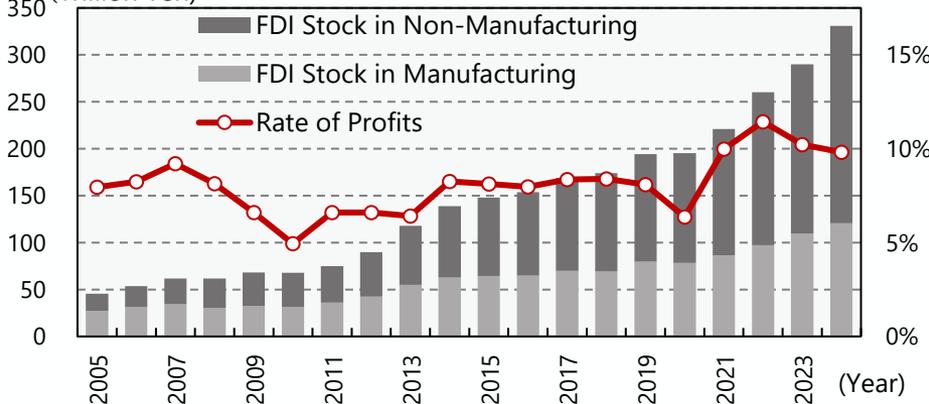
Rate of Dividends from FDI Income in Major Countries (2010-2023 Average)



Note: For the UK, the figure is the average for 11 years, excluding the years 2014, 2015, and 2017, for which data is not available. Source: Balance of Payments Statistics, IMF.

Rate of Profits from FDI Stock

(Trillion Yen)

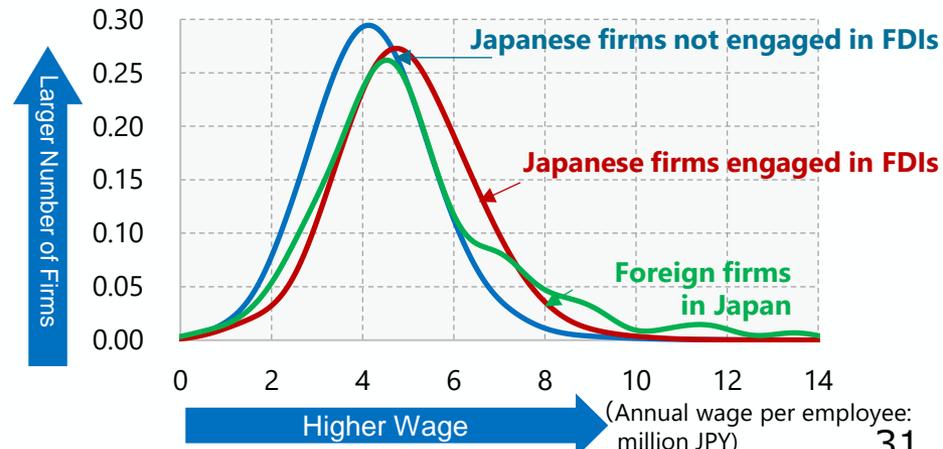


Note: The rate of profits is calculated by dividing the earnings for the year by the average of the earnings at the end of the current year and that of the previous year. Stock is the figure at the end of the current year. Sources: International Investment Position of Japan, MOF, Balance of Payments Statistics, MOF, BOJ.

Ref.: Higher Wages in Firms Engaged in FDI

(Kernel Density)

Wage Per Employee in Manufacturing



Source: White Paper on International Economy and Trade 2023 (Estimated from Basic Survey of Japanese Business Structure and Activities, Basic Survey on Overseas Business Activities, METI).

5. Objectives and Direction of International Trade and Economic Policy Considering the International Situation

- In light of changes in the international environment, it is necessary to **respond to the fluctuations in the international economic order to ensure autonomy and indispensability amid rising protectionism.** In addition, we need to take actions to explore overseas markets through exports and foreign investments to maximize Japan's value added, addressing the intensifying competition surrounding Global South countries and the advancements in DX (Digital Transformation) and GX (Green Transformation).

Note: Regarding foreign investments, it is important to **avoid the outflow of high value-added functions that Japan should retain domestically, while incorporating overseas innovations and promoting the diversification of supply chains to prevent overdependence on specific countries or regions from the perspective of ensuring autonomy.**

- To navigate the challenging international environment, the current direction of Japan's international trade and economic policy can be summarized in the following three points:
 - ① **To respond to fluctuations in the international economic order,** Japan underlines its stance **as a reliable partner in the international community** while engaging in **multi-layered economic diplomacy** through **building win-win relationships** with various countries and **working to strengthen the international economic order.**
 - ② Regardless of the status of the international order, with the aim of **maximizing value-added** through addressing global challenges such as DX and GX, and **incorporating overseas vitality,** Japan should focus on **securing and diversifying export markets** based on the enhancement of domestic investment, as well as **supporting the high value-added activities of Japanese companies through co-creation with Global South countries etc. via foreign investment.**
 - ③ Even amid rising protectionism and the emergence of threats from overcapacity and overdependence, it is essential to **enhance supply chain resilience, strengthen autonomy** (e.g., ensuring a stable resource supply), and **secure indispensability** regarding technologies and businesses. Japan will promote **integrated efforts both domestically and internationally** including policy coordination with like-minded countries, domestic institutional development, and overseas business expansion to ensure economic security.

Overview of International Trade and Economic Strategy

“Maximizing Japan’s value added in the world through solving global challenges”

(Increasing exports and foreign direct investment returns,
improving terms of trade, ensuring autonomy and indispensability)



“Remaining a reliable economic partner
even in an uncertain world”

(Vision in the international community)

(1) Response to Fluctuations in the International Economic Order Amid Rising Protectionism

Aiming to reconstruct the international economic order, we will pursue **fair and free rules** and engage in multi-layered economic diplomacy.

<Key Policies>

- Building win-win bilateral relationships
- Cooperation and co-creation with like-minded countries on specific issues (e.g., decarbonization in AZEC, economic security in G7).
- Maintaining, strengthening, and reconstructing the international economic order (e.g., expanding CPTPP, enhancing EPA and investment agreements, considerations toward reconstructing the order, restoring and strengthening WTO functions)
- Strengthening ties with Global South countries (e.g., regional and country-specific strategies)
- Enhancing intelligence on international situations

(2) Incorporating Overseas Vitality for Maximizing Value Added

Supporting Japanese companies' overseas expansion by securing and **diversifying** export markets and co-creating with **Global South countries**.

<Key Policies>

- Establishing rules and environments (e.g., promoting economic diplomacy, digitizing trade procedures, standardization, measures against counterfeit products)
- Acquiring markets in the Global South (e.g., developing master plans and demonstration support, strengthening trade insurance, developing human resources and exchanges)
- Strengthening support for service exports and overseas expansion (e.g., cooperation with Europe and the U.S., support for the export of content industry **products**)
- Enhancing support for small and medium-sized enterprises (e.g., the 10,000 new exporters support program, private-sector support initiatives, support for hiring highly skilled foreign human resources, support for intellectual property utilization.)
- Acquiring highly skilled foreign human resources (promoting an influx of researchers)

(3) Integrated Efforts to Ensure Autonomy and Indispensability

Promoting integrated efforts both domestically and internationally, including **coordination with like-minded countries on supply chains** and supporting overseas expansion to ensure economic security.

<Key Policies>

- Promoting international cooperation among like-minded countries and examining domestic policies (e.g., non-price criteria, regulatory approaches, human rights)
- Expanding international cooperation frameworks, including emergency responses (bilateral and multilateral, by sector)
- Advancing Run-Faster partnerships with like-minded countries in the Indo-Pacific
- Supporting Japanese companies' overseas expansion for supply chain resilience and for addressing global challenges by Japanese Indispensability (e.g., demonstration support)
- Promoting diversification of sources in energy and minerals (e.g., resource diplomacy, JOGMEC, NEXI)